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LONG-TERM CARE: AFFORDABILITY VERSUS NEED VERSUS MARKETING

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Recorder: GARY L. CORLISS

- Consumer desires/needs
- Consumer knowledge/interests
- Intermediaries' role in defining benefit
- Cost of benefits
  - Inflation protection (simple/compound/GPO)
  - Nonforfeiture (upon death and/or lapse)
  - Noninstitutional (home care/adult day care/respite)
  - Elimination periods/lifetime maximums
- Financial ability to purchase
- Buying attitudes of public for coverage
- Trade-offs between price and features

MR. GARY L. CORLISS: The topic of this session is quite timely for two reasons. First, the June article in *Consumer Reports* suggested what coverage they believe consumers really need, what they ought to buy, and who ought to sell it to them. Second, the NAIC is very heavily debating issues related to inflation protection and nonforfeiture values. The Commissioner from Arizona who heads the Long-Term Care (LTC) Task Force wishes to come up with a position on nonforfeiture values very rapidly. These topics will be the primary subjects presented by the speakers.

The three speakers have been the prime LTC movers within their separate organizations. The first speaker will be Debra Fulks from CNA. She has a 17-year history in a variety of product design, marketing, administration, and product development areas. Since 1988, she has had the responsibility of bringing to the market and carrying out their group LTC program. Debra will be addressing primarily consumer needs, both on a theoretical basis as well as some practical reality from some research work her company has done. Debra will be followed by Mark Rowley, who is the assistant actuary of Principal Financial Group. He's been with them since graduating from college seven years ago. Over the last five years he's had overall responsibility for both their individual and group LTC market design. He will be speaking about the costs and affordability issues. In this case, Frank Sena was the person that put CIGNA's LTC program together. He spent the last four years putting together the LTC program for CIGNA in the group employer-sponsored area. He currently is managing director of their overall product, strategy, and design, even a bigger issue than LTC insurance. The subject he's going to address relates to some market segmentation work specially for LTC.

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MS. DEBRA L. FULKS: I'm going to answer a series of questions about the consumers of LTC services and LTC insurance. I'll touch on what consumers need, what they know about what they need, what they say they want in coverage, what they know about what they want, and how they feel about various add-ons, like nonforfeiture values. Finally, because as insurers, we must deal with intermediaries like agents, brokers, consultants, and employers before we get to the ultimate consumer, I'll touch on how these intermediaries impact product design.

WHAT DO CONSUMERS NEED?

Quite simply, consumers need financial protection against the potentially catastrophic costs of LTC. But just what is catastrophic? It obviously varies by individual. At one end of the spectrum, the LTC premiums themselves would present a catastrophic financial burden, while at the other end, no amount of LTC services could ever be considered a financial burden. In between are a vast number of people who should be considering LTC insurance.

There's an article in last year's July-August issue of *Contingencies* by Stephen Goss that makes an attempt to quantify who should buy. The model accounts for the potential costs of care and the cost of paying the premiums. It indicates that those with less than $25,000 or more than $500,000 in assets (not including a house) gain little from LTC coverage. The results seem reasonable and logical to me, at least for older purchasers. I don't think it's as straightforward for younger purchasers of employer-sponsored plans whose financial status going into retirement is less clear because it's viewed from farther away.

Regardless of age, the costs of care are high and increasing. They vary substantially by region. Table 1 shows wide ranges. Obviously, there are facilities outside these ranges. The ranges are meant to be ranges of averages. These are daily costs while Table 2 is cost per visit. Generally there is only one visit per day, although homemakers may come both in the morning and evening. Here we see a range from $80-120 per visit for a medical social worker (MSW) down to $15-25 per visit for a homemaker. These numbers remind me of something else from the Goss article. He said that the right question isn't – "Can I afford to buy insurance?" – it's "Can I afford not to buy long-term care insurance?"

TABLE 1
Long-Term Care Costs

Location	Average Daily Cost
Nursing Home	$60 - 150
Respite Centers	75 - 175
Adult Day Care	20 - 60

While the probability of needing care is a less important factor than the financial consequences of being uninsured, it is still part of the "needs analysis." Table 3 is an extract from the article published by Peter Kemper and Christopher Murtaugh in the February 1991 *New England Journal of Medicine*. The chief conclusion was that, "Over a lifetime, the risk of entering a nursing home and spending a long time there is substantial."

TABLE 2
Long-Term Care Insurance

Service	Average Cost Per Visit	Average Hours Per Visit
Visiting Nurse	$50-100	1.25
Therapist	50-100	1.10
MSW	80-120	1.25
Home Health Aide	30- 70	2.00
Homemaker	15- 25	1.50

TABLE 3
Risk of Nursing Home Use
1990 Cohort of 65-Year-Olds

1.	Entering nursing home before death	43%
2.	At least a 3-month stay	32
3.	At least a 1-year stay	24
4.	At least a 5-year stay	9

Source: "Lifetime Use of Nursing Home Care," by Peter Kemper and Christopher Murtaugh, *New England Journal of Medicine*, February 28, 1991.

We can see the risk in the numbers shown for the 1990 cohort of 65-year-olds, especially noting that almost a quarter of them are predicted to spend at least a year in the nursing home before death. On the average, 9% will be there at last five years with dramatic differences by sex – 13% for women and only 4% for men. There are other statistics on risk by age, sex, race, region of residence, and marital status. The point is that the risk is significant enough to merit attention and planning.

What part of this potential catastrophe is already covered? For those younger than 65 who have medical coverage and those older than 65 with Medicare and various supplements, the answer is very little. Those kinds of insurance are focused on acute episodes and treatable chronic conditions.

Table 4 shows, for example, what Medicare will cover in 1991.

TABLE 4
1991 Medicare Benefit Levels

Service	Medicare Pays
Posthospital Skilled Nursing Facility (SNF)	
a) First 20 days	100%
b) 21st-100th day	All but $78.50/day
c) Additional days	0
Home Health Care	
a) Skilled nursing b) Physical therapy c) Speech therapy	Full cost, unlimited; very strict criteria

Notice that even though home care says it's fully covered and unlimited, the criteria are so strict that it really requires progressive improvement. The truly catastrophic financial blows come from the long periods of custodial care needed by a person in a slowly declining state of health. These are not covered, except by the welfare system, like Medicaid, after most assets are depleted. For the majority of us in need of financial protection against the cost of LTC, the pooling mechanism of insurance provides the most efficient vehicle. To fund it through savings would take a lot more money, provide little protection in the early years, and possibly require liquidation of assets at an inopportune time.

WHAT DO CONSUMERS KNOW ABOUT THE COSTS, RISKS, AND LACK OF COVERAGE FOR LTC?

To answer this question, I am drawing on the many focus groups CNA has held, inquiries we receive to our 800 telephone number, and questions that are asked at enrollment meetings for group long-term care. My entirely empirical conclusion is that knowledge of the components of need is most dependent on personal experience with the LTC needs of a friend or a relative. Those with experience dominate discussions. They know what Medicare will and will not cover, and they're quite familiar with the costs of care. Their testimonials are often the deciding factor in a less knowledgeable person's decision to buy.

Here is a sampling of the comments expressed during a focus group among purchasers of LTC: "My grandmother had maybe $20,000 saved up . . . I watched her go through all of that . . ." "I calculated out the premiums and interest and saw what would accumulate . . . I could pay for less than a year." "Medicare didn't pay one cent toward my aunt's nursing home bill." "My friend was only 37. Her mom cared for her over a year before the cancer finally took her. This would have helped."

The buying population for group products, and probably for individual plans as well, is heavily dominated by those with such personal experiences. On the other hand, those who have not been exposed to LTC, either first-hand or second-hand, tend to be much less informed. They strongly deny a need for the coverage and even after reading brochures, many still think they are covered "somewhere." Their comments are quite different. "I don't know if I'll need it." "Are you sure Medicare doesn't cover this?" "I expect to save enough to cover myself." "I didn't know any of this! Why didn't they force me to go to a meeting?" As a result of all the publicity surrounding the repeal of the Medicare Catastrophic Act, there are fewer people who think Medicare will cover them.

When group LTC information meetings are voluntary, attendance is mostly by people who have already decided to buy. They are seeking reinforcement for that decision. Many of those without personal experience admitted they hadn't even read the brochure. They simply saw no need. Quite a few nonpurchasers expressed dissatisfaction with the voluntary meeting format. The following comment is typical of those nonpurchasers – "Why didn't they force me to go to a meeting?" Questions at employee enrollment meetings center on specific coverages rather than needs, yet the decision to buy is definitely based on the recognition of need.

One of my major concerns is that even consumers who have purchased a policy due to a good understanding of the costs, risks, and lack of current coverage do not

necessarily understand the benefit triggers of the plan they've purchased. They haven't a clue as to how to compare one set of activities of daily living (ADLs) with another. Yet, this can have a large impact on premium and, more important to the consumer, on exactly how soon benefits will begin.

WHAT DO CONSUMERS SAY THEY WANT IN COVERAGE?

There are several items that dominate "wish lists" at focus groups and are rated highest when various features are ranked:

1. Home Health Care
2. Adequate Benefits
3. Affordable Premiums
4. Coverage for Inflation

Home health care is always first. After that there is a balancing act between lots of benefits with high maximums versus low premiums. The last main coverage is protection that grows with inflation. At focus group sessions with purchasers of group long-term plans, the reasons given for purchasing the insurance do not vary much by age: peace of mind, choice, independence, caregiver support, and the recognition that premiums go up with age at entry. All except the last are intangibles, yet high motivators.

WHAT DO CONSUMERS KNOW ABOUT WHAT THEY SAY THEY WANT?

Let's go through the wish list again, but in more detail.

Home health care

Most people want to stay home, but they are not always aware of the many community options designed to help them stay at home, e.g., adult day care, senior center outreach, transportation networks, chore services, and meals on wheels. Many of these are free or cost very little when compared with the more formal services. This lack of awareness is one reason insurers really need to stress care management and care coordination rather than just paying out claim dollars. Development of an overall care plan and coordinating all the resources is an important service.

Adequate benefits

Those with experience know exactly what coverage they want for nursing home stays, but they are less sure about home care costs. They want enough to be able to choose a good provider. We find that employees who purchase LTC insurance simply buy the most they can afford, regardless of expected costs in the area. For younger employees this is seen as a partial hedge against inflation. Older purchasers buy less because their premiums are so much higher.

Affordable premiums

There are no real guides for young consumers, so they rely on their employers to choose a reasonably priced plan. Anyone older than 50 thinks all LTC premiums are too high. Price is the second most critical factor in the buying decision, right after recognition of need.

Inflation

We've all lived with price inflation for so long that there is a clear understanding about the need to keep the benefits current. Consumers compare this with periodically

updating their life and homeowners insurance. However, there is a lot of concern about continuing affordability since they also recognize that premiums for the increases will be higher.

HOW MUCH INTEREST IS THERE FOR VARIOUS ADD-ONS TO THE BASIC INSURANCE PLAN?

There are a number of bells and whistles that have been hung on LTC insurance to increase its appeal. I will touch on only a few of those.

Inflation coverage is actually a basic protection. It's not considered an add-on, but the various forms available do present choices. There is the built-in level premium automatic inflater that increases the benefit by a set percent at predetermined intervals. There is another automatic inflator that increases both benefits and premium by a set percent or a set index, again at predetermined intervals. There are also future purchase options that allow an insured to purchase additions on a guaranteed issue basis, but at attained aged premiums for the increase.

On employee benefit plans, the future purchase option has been the most popular. The employer assumes more control over the process and the offerings can more closely follow actual cost changes. Because each increase becomes more expensive, some younger purchasers are following a strategy of overinsuring through retirement and then letting their coverage coast. That's their plan and it models out quite nicely.

Caregiver benefits include respite benefits and other support for the informal caregiver such as caregiver training. Respite benefits allow for temporary nursing home placement or extra home care benefits so that the primary caregiver can take time off. At CNA, we allow these benefits without a waiting period, although this is not the approach of all carriers. For up to 14 days a year we double the home care benefit to provide for a paid companion to stay with the insured or allow up to 14 days in a nursing home. Of course, after the elimination period has been satisfied, then the regular home care benefit will provide short periods of respite care on a daily or an intermittent basis. Respite benefits are very well received and popular because they reduce the burden on informal help. Remember that earlier we saw that as one of the goals of purchasers of LTC insurance.

Nonforfeiture benefits provoke a lot of discussion in focus groups. They're "nice to have" until costs are shown. Then interest drops quickly and it's back to the basics.

Return of premium at death was seen as sufficient to pay some final expenses. Most focus group members preferred lower premiums. Here are some typical comments: "Most people have their life insurance policy. Why do they have to intermingle the two? It's just going to increase the premium." "If you have a relative who has expended money . . . to provide for your health care, perhaps this is your way of repaying them." I got a kick out of the middle-aged curmudgeon who summed up his opposition to the benefit by saying, "When you die, the survivors are going to have a load off their backs. They don't need a bonus." Reduced paid up, because it costs so much more than return of premium at death, is dismissed as too expensive by both young and older consumers. The appealing idea of having a paid-up plan at retirement quickly fades when the wide premium rate differentials are shown.

One add-on that was not on my list, because I'm not yet aware of anyone providing the coverage, is dependent child coverage. This is almost always mentioned as something focus group members would like to add to the product.

WHAT IS THE ROLE OF INTERMEDIARIES IN PRODUCT DESIGN?

After all the focus groups are held and all the research is completed, you have a design that is as simple, comprehensive, and affordable as possible. Before you can take it to the ultimate consumer, you have to sell it to the intermediaries – the agents for individual plans side, and the brokers, consultants, and employers on the group side. Obviously, the opinions and conclusions of these people are of great importance to the success of the product. For the intermediaries, personal experience still plays a role, but the focus is quite different. They are typically looking for something that will set them apart from the crowd. On the group side, especially in the jumbo market, we've had to add features to a plan that neither we as the insurer nor the employee as the ultimate consumer wanted, because the intermediaries felt strongly that the additions would increase participation in the plan. The best example is nonforfeiture values, including return of premium at lapse or death and reduced paid up. If as an insurer, you are not willing to comply, you never get a chance to argue your side. When you do get a chance, it is often possible to convince the intermediary.

Lack of knowledge on the part of the intermediary can also present problems. We've been advised in a number of cases that a different set of ADLs was to be used, with little concern about the effect on ultimate benefit eligibility. We've even received requests for bid that simply said they wanted a trigger based on two impairments out of five activities, without even stating which five we were to use.

Another design challenge involved pairing a nursing home only plan with care management. The most effective care management involves early intervention and a comprehensive plan to coordinate all available community resources. It doesn't work well with nursing home only coverage. Again, however, you can't argue your case until you get before the judge, so you redesign and reprice.

Has all of this had a permanent impact on product design? For CNA it has. We're in the process of filing a much more flexible plan design with even more options so that we can respond more quickly to variations requested by employers. It was in response to requests from consultants and employers that we struggled to put into writing a claim philosophy that was underlying our whole product design. That exercise alone gave us a good foundation for clearer contractual language for the next generation product.

Even as we revise, reprice, and refile our contracts, we are careful not to disrupt what we already have. Based on feedback from the 35 cases we've sold, the ultimate consumer still prefers the simple, affordable design that we introduced three years ago. CNA has achieved much higher than average participation rates on the current prototype, so before any new design would actually replace the earlier one, we'd have to do a lot more consumer research. We always try to keep in mind that while we must satisfy the demands of the intermediaries, the ultimate consumers vote through participation. A complex plan that sounds great to the consultants and the employers is not in the insurer's or consumer's best interests if it results in less than expected enrollments.

MR. MARK C. ROWLEY: I am going to talk about the affordability issue and, specifically, the cost of various benefits. When the phrase "cost of benefits" was put on the program write-up, I thought I would talk about claim costs. After further thought, I decided to talk about the impact on premiums necessary to provide these benefits. Therefore, I'm going to discuss the additional cost for including different benefits.

The premiums I've calculated were determined as follows. Claims costs were prepared, present value of the claims costs were calculated and then divided by a loss ratio to determine the premium. The reason I'm going to focus on loss ratio is that loss ratios vary quite widely in the different coverages that I've had the opportunity to price. Richer benefit plans have higher loss ratios. Lower issue ages have lower loss ratios because the benefits are so far into the future. In general, if you're changing benefits and you're trying to add or subtract benefits, the effect on the premium is smaller for the small loss ratio plans and larger for the large loss ratio plans.

I am going to talk about four benefits. The first two are inflation protection and nonforfeiture benefits which, as Gary mentioned, are two of the real hot topics in the NAIC right now. The basis of my presentation on these two topics is the work done by the NAIC LTC Actuarial Task Force chaired by Bartley Munson. I'm going to be referring to sections from that report. The last two items I'm going to talk about are the cost of different noninstitutional benefits and different ways to set up the benefit waiting periods and lifetime maximums.

There are several ways to provide inflation protection. A number of them are detailed in the NAIC report. I'm only going to talk about a couple of those. The first one is a flat premium or level premium approach, just where the premiums aren't anticipated to increase over the life of the contract. The daily benefits are meant to rise along the level of the inflation rate. The most common increase is 5% of the daily benefit every year. The premium for the base case (where there's no inflation protection provided) that we will be using is found on page 12 of the NAIC Task Force report (Table 5).

TABLE 5
Flat Premiums

Case	Monthly – Issue Age			
	35	50	65	75
1 N	$6	$14	$90	$240
2 FS10	7	18	123	306
3 FS20	8	23	136	318
4 FSL	9	26	138	318
8 FC10	7	19	130	317
9 FC20	9	28	154	339
10 FCL	16	40	160	340

I will use that base plan to compare against and to demonstrate how much the various inflation options cost. The six inflation options I will use are as follows:

- 5% simple benefit increase for 10 years (FS10)
- 5% simple benefit increase for 20 years (FS20)
- 5% simple benefit increase for lifetime (FSL)
- 5% compounded benefit increase for 10 years (FC10)
- 5% compounded benefit increase for 20 years (FC20)
- 5% compounded benefit increase for life (FCL)

Rather than just show you the raw premium numbers, I want to focus more on the percentage changes that result from these various inflation protection options. If you look at case 9 for issue age 50 in Table 6, for example, there's a nice round number of 200. If that form of inflation option is offered, the premium will double compared with a policy in which no inflation is offered. The thing that stands out is the premium for the option where the increases are compounded for life and have no limit is enormous compared with the rest.

TABLE 6
Flat Premiums
Premiums as % of No Inflation Case

Case	Issue Age			
	35	50	65	75
1 N	100%	100%	100%	100%
2 FS10	117	129	137	128
3 FS20	133	164	151	133
4 FSL	150	186	153	133
8 FC10	117	136	144	132
9 FC20	150	200	171	141
10 FCL	267	286	178	142

I want to comment on the reason for the premium patterns at issue ages of 50 years or younger. At the lower issue ages, the base policy has a smaller loss ratio. When one adds any type of benefit to a base plan, it's not going to have much of an effect on the premium. However, eventually there will be larger benefits for the younger issue ages because of the compounding. In the plan that was compounded for life, the compounding gets to be significant as it is for many years. For example, on issue age 35, if you're compounding for life, you would have compounded 5% for 40-60 years to reach the primary benefit paying years between attained age 75 and 95. That results in a very large daily benefit. That's the reason that the compounded premium rates look so large, as opposed to an issue age 75 where you would have been compounding for a much shorter time.

The other type of inflation protection I'm going to mention is called the Guaranteed Purchase Option (GPO) benefit. Typically every three years the insured is offered additional amounts of daily benefit of some amount without evidence of insurability. The premium rate charged to people who are buying the benefit increase at that attained age are going to be charged the same premium per unit as the people who just bought a new policy at that same attained age. To calculate estimated premiums, the NAIC Actuarial Task Force made a number of assumptions. For the GPO product, they assumed no commission would be paid and, also, that there

would be no additional renewal expense. To develop a premium, a calculation must be made to determine a weighted average of two kinds of premiums. First, one needs to develop a theoretically correct premium to charge on an original issue age basis. To do so, it is necessary to prepare assumptions such as lapse rates, claim costs, and expenses to make sense for that age. Then with those assumptions, prepare rates on an attained age basis what would be the theoretically right varying premium. For example, lapse rates are usually lower at that point because they're in later durations and need to be adjusted for expected antiselection in the claims costs. After development of two theoretical premiums, the weighting of those two premiums is performed to figure out what you need to charge. The NAIC report came up with premiums found in Table 7. In the 5% compounded situation, the NAIC assumed that a 5% compounded benefit would be added every three years. The last column on the right was the same thing except it was calculated with simple interest. You see, at age 35 it didn't cost anything extra to provide this benefit. At age 50 it was actually cheaper to add this benefit up front. At ages 65 and 74, it was more expensive to have the GPO benefit. There are competing forces on this benefit. Basically, the question is does the antiselection more than offset the savings in expenses? Well, the NAIC actuaries were able to do better than I've done in my pricing. I've never been able to get the GPO premiums to come out lower than the base premiums. I think the reason was that I always assumed that commissions would be paid. It seems more realistic to me that commissions will be paid and so will some additional renewal expenses occur. The key pricing assumptions are the level of antiselection loaded into the claims cost and what percentage of your business is going to be sold on those attained basis versus the original aged basis when you do this weighting of the premium. It seems to me this is an expensive way to buy LTC. There should not be a lot of disagreement on that conclusion because this is the opposite of the flat premium situation. Premiums increase every three years as the additional attained age premium portions arrive. At the older ages, premiums can become unaffordable.

TABLE 7
"GPO" Benefit Premium
Annual Premiums, $80 Daily Benefit
Selection/Antiselection

Age	Case N	5% Compounded	5% Simple
35	72	72	72
50	168	144	144
65	1,080	1,188	1,176
74	2,880*	3,852	3,828

* Age 75 years.

As a final thought on inflation protection, I'd like to describe the benefit we designed at Principal Financial Group. It is an individual product we're going to announce later this year. We used a combination of the flat premium and the GPO. Our base is a flat premium with 5% compounded increases. Over and above that benefit, we will offer a GPO benefit that's tied to a nursing home index just in case the 5% compounded doesn't keep up with inflation. Let me give a quick numerical example. Say that nursing home costs have gone up 20% over a three-year period. The base plan

compounded increase of 5% for three years is about 16%. The GPO offers an attained age increase in benefit of an additional 4% to make up the difference.

My next topic is nonforfeiture benefits. There are four kinds of nonforfeiture designs described in the NAIC report. In light of the heavy current interest in this NAIC activity, I want to give you my opinion of where I think it should end up. In general, with any kind of product an insurance company can use the reserves released on lapse in various ways. They can benefit persisting policies. They can benefit the policies that lapse. They can do some combination of these two approaches. It's certainly true that LTC pricing and probability results are very sensitive to assumptions and lapse experience, respectively. In general, low early lapses and high mid-to-late lapses are profitable for the insurance company. Another way of describing the same result is that an actuary can justify low early lapse rates in his pricing and high mid-to-late lapses, and the premium will be more competitive.

The first nonforfeiture benefit I want to talk about is cash surrender value. The NAIC actuaries came up with cash surrender values set at 90% of some asset share calculation. They found that the premiums increased significantly and that the greatest increase was at age 50 (Table 8).

The next nonforfeiture benefit is a return of premium feature. With return of premium, there are several things to think about in the design. What portion of the premium is to be returned? Is the premium return on death, lapse, or both? Are the premiums returned with or without interest? Are they returned as a lump sum of each or as some form of LTC benefits? This LTC benefit was a new thought to me. I guess what they meant was that they would somehow keep these premiums in some account that could be accessed by the policyholders if they had a LTC situation. They didn't price that one.

TABLE 8
Nonforfeiture
Cash Surrender Value
With Selection/Antiselection
Ratio of CSV W/DB to None, Case 1,N

Issue Age	Ratio
35	167%
50	223
65	152
75	158

Once again, the calculations resulting from this benefit increased the premium significantly (Table 9). Pricing was sensitive to lapse and antiselection. I want to make one more comment about lapse. With all nonforfeiture benefits you have to evaluate how lapse rates might change given the presence of the nonforfeiture benefit. For example, if a benefit doesn't start until the tenth duration, the lapse rates might be better in the first 10 years.

Policyholders may wait around until there's some return from their policy. The NAIC Task Force premiums for their particular design of a return of premium benefit are in

Table 9. The pattern of large premium increases is as I would expect. In our own product development efforts, we derived a return of premium death benefit. Premiums are getting quite prohibitive at the older ages. That makes sense because the benefit is a function of the premium and there's a real steep slope of premiums for LTC insurance.

TABLE 9
Nonforfeiture
Return of Premium
Selection/Antiselection
100% Nonforfeiture Provision
Ratio of ROP to None, Case 1,N

Issue Age	Ratio
35	246%
50	299
65	463
75	587

The next nonforfeiture subject is reduced paid up. The question here is what will be the level of the reduced benefit. The NAIC Task Force developed some percent of benefit continuation. The NAIC reports the largest premium increase at the youngest ages. I suggest the reason it was larger at the younger ages was that more claims will be paid at attained ages of 75-95 without deletion due to lapse, just as I described about inflation protection earlier.

The last benefit nonforfeiture category I will discuss is extended term. The NAIC actuaries designed this benefit in such a way that it was equivalent in cost to the reduced paid up, so I don't have any more premiums to show you because they're the same as what I just showed you. The key pricing assumptions are the same as for extended term on other plans. It might be smart for persons near death to stop paying the premiums as long as they don't outlive their benefit period. That is the antiselection aspect of extended term.

I would like to close this discussion on nonforfeiture benefits with my opinion on what should be required by legislators for nonforfeiture. There are a myriad of possible designs and costs. I've quickly gone through four ways of building a nonforfeiture option. I think you can design a nonforfeiture benefit with about any cost from any of the four benefit designs. I also think that any reasonable benefit design will result in a cost problem. If the design releases the entire reserve for the lapsed policy, it will be very prohibitive.

Considering the attributes of various nonforfeiture possibilities, I personally favor extended term as the nonforfeiture benefit, if one must be provided. First, I want benefits to be paid out for LTC services so that the insurance industry is helping solve the LTC financing problem. Nonforfeiture benefits that don't pay out LTC benefits are not desirable. Extended term, by its definition, pays the full LTC daily benefit as long as possible. It also insulates these policies from replacement, which I think is also desirable. Reduced paid up (Table 10) also pays out benefits for LTC services, but I like the extended term better than paid up for a couple reasons. Paid up pays out a

smaller and possibly insignificant benefit whereas extended term pays out the full LTC daily benefit. It pays a more reasonable benefit. From the insurance company's standpoint, I think there are also two significant advantages. There is a shorter amount of time in which to administer benefits after premiums cease as opposed to the reduced paid up where they go for the life of the contract. Second, there is a shorter window for pricing adjustments. As most of you know, when a policy goes onto reduced paid up or extended term, the contract really has changed from a guaranteed renewable policy to a noncancelable one. I don't care for that result under extended term either, but at least it's for a shorter time. In summary, if we must provide a nonforfeiture benefit, I would prefer extended term.

TABLE 10
Nonforfeiture
Reduced Paid-Up
With Selection/Antiselection
Ratio of RPU ("Full") to None, Case 1, N

Issue Age	Ratio
35	149%
50	140
65	103
75	101

I still prefer no nonforfeiture benefit so that the limited premium dollars that are available to solve the LTC financing problem are as focused as possible and provide as many LTC benefits as are feasible.

Now I'm going to go to the major portion of the talk that I prepared myself. It deals with product development at Principal this year. I had to cost out many different benefits because we developed a pretty flexible plan. For example, the lifetime maximums are stated in dollars. The lifetime maximum is the result of multiplying $1,000 by the daily benefit. We also developed an unlimited plan.

Waiting periods can range from 20-365 days. The noninstitutional benefit can be 75%, 50%, or 0% of the nursing home daily benefit. Zero percent means there is no institutional benefit. The benefit increase option can be 300%, 200%, or 100% of the original daily benefit. The 100% version has no benefit increase. We also designed a return of premium death benefit.

Let's touch on noninstitutional care. My base comparison plan will be a program that has a noninstitutional care benefit, which is of the nursing home daily benefit. The noninstitutional benefit includes home health care, adult day care, and respite care as a package. Table 11 indicates the premium change if the noninstitutional benefit goes from 50% to a 75% benefit, which is obviously an increase in benefit. Table 12 indicates the premium decrease in removing the 50% benefit completely. At the higher ages and most waiting periods (where there are larger loss ratios), adding benefits cost more. Regardless of age with the 365-day waiting period, there is a much lower impact. The interesting thing about how to wrestle with institutional and noninstitutional care with claims costs is how noninstitutional claims relate to the nursing home claims. On the surface it seems simple. Derive each separate claim

cost and then add the two together. But total claims costs for both noninstitutional and nursing home are lower if the other element exists. When someone has an LTC situation arise, there is a choice about the service to use that can differ depending on which one will pay. Our assumption is that the nursing home claims win at the higher ages. At the real high ages we don't think the noninstitutional benefit is going to keep most people out of the nursing home. That means the noninstitutional benefits shouldn't cost as much to add on at the higher ages. Looking at the numbers in Tables 11 and 12, those effects show up. Issue age 75 is a little bit lower because of competition with the nursing home benefit. Basically, the same result can be seen with the noninstitutional benefits. Both the 365-day wait and the age 75 are less.

TABLE 11
Noninstitutional
Additions to Premiums for 75%

Age	365-Day Wait	Other Waits
35	7%	9-15%
50	8	12-15
65	6	9-13
75	5	7- 9

TABLE 12
Noninstitutional
Reductions to Premiums for None

Age	365-Day Wait	Other Waits
35	13-16%	20-30%
50	13-17	25-33
65	13-16	24-28
75	10-14	20-22

The last benefit considerations I will address relate to the waiting periods and lifetime maximum. I will cover the lifetime maximum first. I mentioned that at the Principal Finance Group we use a multiplier approach (i.e., a dollar maximum instead of a day's maximum). My comparison will be against the $1,000 basic amount. Again, you're going to see the loss ratio effect because it adds more premium at higher ages when you have more benefit increase. The same relationship happens with the 365-day waiting period.

Tables 13 and 14 indicate the percentage additions to premium dollars when $1,000 changes to a $2,000 multiplier. This result looks a bit strange at age 65 and 75, because some of the numbers are the same. The reason for that is our benefit increase option is actually the same. For example, you go up to 200%, the benefit increases to the earlier of 200% or age 80. Where the numbers are the same, the 200% and 300% increases are actually providing the same benefit. That's just an anomaly of the plan design. When there is no limit, however, more needs to be added to the premium than if you were just going to $2,000.

In conclusion, I think the most valuable thing I've learned and have attempted to describe is that the size of premium adjustments due to different benefits is due to the loss ratio effect and the competing forces of nursing home versus noninstitutional care. It's fun to price around these interrelating variables. I'm sure different actuaries would come up with different results finding the proper mix they are most comfortable with.

TABLE 13
Lifetime Maximums
Additions to Premium for $2,000
20-100-Day Waits

Benefit Increase Option			
Age	300%	200%	100%
35	10-14%	8-13%	6-9%
50	22	21	17
65	28	28	26
75	31	31	31

TABLE 14
Lifetime Maximums
Additions to Premium for Unlimited
20-100-Day Waits

Benefit Increase Option			
Age	300%	200%	100%
35	23-29%	19-26%	13-20%
50	44	41	34
65	50	50	47
75	52	52	52

MR. FRANK L. SENA: I think it's important that actuaries and marketeers work closely together on LTC insurance for a number of reasons. I believe we have an obligation to make the LTC conundrum go away. It won't happen this year or next. It may not happen in ten years, but the fact of the matter is that those of us in industry, providers of care, state and federal legislators, and regulators need to work together to solve this problem. I know that there's going to be some talks on the uninsured and the underinsured in other sessions. Certainly, the federal government has to wrestle with that matter also. The problem with those in the federal government is that they tend to look at LTC in a microcosm. I think of long-term care as part of the health care continuum and that's how I look at it as a marketeer. It is not purely an issue for the aging. Debra spoke earlier about dependent children and I think that's an issue that we as an industry don't want to talk about right now because we're not ready. But, it is part of the health care continuum.

I will share with you some ideas I believe are important that will bring all of our learning curves up. It should help understand better what's going on in the marketplace. It will help assist in the development of more and better products. In America,

industry has always come up with better products through competition. It's through competition and understanding of what's out there in the market that we can all come up with better ideas and not just better products to help this big issue. I had my own personal experience with LTC last year with my mother. I have a real personal stake in it and I don't want to be in the same situation 20 or 25 years from now that folks are today and put a burden on my kids. I hope that all of us can learn, take it back to our companies, and do something constructive about it.

At CIGNA, we have conducted several focus groups and considerable quantitative analysis from individuals across the U.S. to determine buyer attitudes and buyer profiles. Clearly, consumers have to recognize the need for LTC insurance before they'll buy it. What we tried to do was determine what these buyers are like. Do they differ? How do they differ? What are their buying needs? What are their buying motivations? After all our analyses, we determined that there are four segments of buyers.

General industry enrollment participation is in the 5-7% range on average of employer groups. I think that's extremely low and I think that gives cause for the regulators to say it looks like private LTC insurance isn't working. It is incumbent on us to come up with plan designs that meet the kind of cross section of the market that we see. To get participation higher, we need to have plans that are flexible enough to meet the four profiles that we've come up with. We wouldn't go after a corporation that had a very low average income or that was predominantly the kind of market that exhibited this, but within the context of plan design, we need to design the kind of a plan features that are achievable for each particular market segment.

I'll name and define each of those and show you some sample product designs as a result of that research to meet their expressed needs. The first segment were "benefit seekers." The second segment we call "economy mindeds." The third segment, "restriction avoiders." And the fourth segment, "financial conservers." You'll see within the context of what I'm going to show you a lot of what Debra had to say about the research they did. Then I'll finish up with some conclusions that we arrived at.

Let's start with the "benefit seekers." This was 42% of the cohort that we interviewed. They prefer a high daily benefit, a return of premium death benefit, a low deductible, and case management. They are clearly benefit oriented, but interested in a few value added features. Their demographic profile shows they are an older population, married, better educated, and they tend to have high incomes. Their attitudinal profile "most often agrees" that financing LTC is something they will deal with only when the need arises and, second, they believe that they are knowledgeable about the costs of nursing homes in their area. In general, these are educated people. Twenty-one percent were extremely or very interested in purchasing LTC insurance.

The optimal product that we derived for them had $50 a day home care and $100 per day nursing home care. We included a fairly hefty lifetime maximum of $250,000, although my personal belief is that benefits don't have to be that high to satisfy their needs. However, when you're talking with a somewhat uneducated public on this subject, they want to see a large dollar lifetime maximum. This plan

includes a return of premium death benefit. The premium is at the actuarial price. I don't know what that means. All of you have your own idea of what the actuarially correct price is, right? The deductible was set at 30 days. Case management is included as is a consultative and referral service that we market through Work/Family Directions out of Boston, Massachusetts. There is a great deal of value added with this product design.

The second group were the "economy mindeds" and you're going to see why we called them that. They wanted a low monthly premium, low daily benefits, very high deductible; willing to trade off most features for a low premium. Their profile: they're older, female, retired, not married. Clearly, these are individuals who don't have the income to support a very rich benefit plan. Their attitudinal profile is such that if a 90-day deductible meant lower premiums, then they would buy that version rather than the 30-day deductible. These folks are the ones who will probably depend on Medicaid to pay for their LTC expenses. They have adequate financial resources to cover a long-term illness and they're only going to be interested in purchasing insurance for LTC when the market increases its saturation. In determining an optimal product for economy mindeds, we concluded it should look something like this: a low daily benefit, a minimum of lifetime coverage, no death benefit feature, an unrealistically low price, high deductibles, and case management. For some reason they didn't like the consultative referral service. My guess is that they didn't understand it.

The third group, the "restriction avoiders," were really interesting. They didn't even want premiums to restrict their coverage. They wanted no deductible. They were willing to trade off most features to have no deductible. When they thought that it might cost them several thousand dollars in out-of-pocket expenses, they didn't like that idea at all. Their profile was younger, employed, married, less well educated, most often agreed that they don't want a product with the deductible or a waiting period. If they were offered a product through their employer, they'd be real interested in purchasing it. They more often disagreed that if they could lower their premium, they would be willing to limit their choices of nursing homes to the ones on an insurance company's preferred list. Well, that's interesting. That sounds like a PPO to me and, in fact, we're looking into that: PPOs for some of the nursing home chains and some of the home health care agencies. I think that this is a product that will naturally gravitate toward a managed care approach. Case management is sort of a managed care approach, but I'm talking about a real managed care approach either through HMOs or through PPOs. I think that there's some market acceptance for a PPO type of arrangement. And, again, they didn't want any deductibles at all. Realizing they weren't going to get what they wanted, we developed a program that includes a modest daily benefit and a reasonably high level of coverage. They liked the return of premium death benefit. They thought they were getting something back. Again, not only did they want no deductible, they wanted to pay lower prices, too. Tough market to go after. They liked the case management and the consultation referral service.

Now let's turn to the group that was most interested in purchasing the product, the "financial conservers." From what Debra said, these people understand the risks involved. They probably have experienced it themselves. They don't want to pay a

lot for the product. They would like to have a death benefit feature, 30-day deductible, a longer period of coverage. They tend to be female, younger, married, employed, better educated; probably more like the kind of profile employer that we're looking for. Their attitudinal profile: "My main goal in buying long-term care insurance is to protect my family assets." "If long-term care insurance were offered through my employer I'd be very interested in purchasing it." In fact, 32% of them said that. As you'll see in our conclusions, that's something that was very strong in our decision to pursue the employer market and not go into the individual market. Their optimal product looked something like this: fairly generous daily benefit at least for today's standards, good amount of coverage, and the death benefit return of premium feature. Again, they wanted a low price. They wanted a reasonably low deductible, case management, and the consultation and referral service.

Based on what we learned in terms of what the market wanted, we had a dilemma of how we should design flexible products for the employer market. In determining how to proceed, we came up with several conclusions. I think the conclusions give you a good sense of how to employ the research that we had completed to design employer plans. Our first conclusion was that the demand for LTC insurance is primarily in the age 50-74 market, and not in the 30 or 40 age market. Some of the group policies sold had an average age of around 40. Well, guess what? They had very minimal lifetime maximums, no inflation protection, no nonforfeiture. The monthly premiums for a 30-year-old were tantamount to coffee money, so I personally discount the value of an LTC product with today's products out there for the 30-year-olds. The way policies are designed today, it's consumers in their late 40s and 50s who are truly interested in the products; I can't emphasize that enough. We shouldn't think that the products we have today are going to look the same two years from now. The second conclusion is that with the mature market, attitudes, and not age, are the best predictors of interest in LTC insurance. The third conclusion agreed to by 93% of the population is that they don't want to depend on their children to help them with the cost of insurance; 81% would disagree that they would depend on the government, which means 19% said they would; 59% would disagree that they have adequate financial resources; 62% indicated at least some interest in purchasing LTC care insurance.

Conclusion four is an interesting one. The demand for LTC insurance has a time-related dimension in that consumers are more likely to purchase an LTC product in the next 2-3 years than they are in the next six months. We found that interesting in terms of designing whether we wanted to do guaranteed issue for LTC. Let me talk about guaranteed issue. Based on the number of eligible employees, we would consider offering guaranteed issue on an actively at work population (with a load to the rates). We are absolutely and positively not interested in offering guaranteed issue to anybody else. Spouses should be underwritten with less intensity than parents and retirees. The interesting thing about guaranteed issue is that when you offer a "window of time" when they have to sign up, you get much higher participation than leaving it open ended. This leads me to conclude that if you're going to get into the market and start building market share, you've got to risk offering guaranteed issue on an actively at work population to get them to buy. That, of course, means you need to overcome objections of your financial people who wonder when you're going to turn a profit.

Conclusion number five. Very few consumers now have LTC insurance. Some mistakenly believe Medicare, Medicaid, or Medicare supplemental policies will cover them. Number six. The major factors that affect the selection of an LTC insurance product after they've recognized that they should consider buying one are price and deductible. Deductible is one that we really struggled with. We generally offer a full range of deductibles. The problem is that in an employer situation, the employer doesn't want to offer a lot of choices and so what we usually come up with is a 90-day deductible to start. We redesigned our language to make the 90-day deductible more palatable to potential insured. When the insured or someone applies in their behalf, we will send out our case manager. If the case manager determines that for up to 60 days prior to the day of claim the individual had incurred covered expenses and was, in fact, eligible for benefits based on our criteria, then we would pull back the waiting period retroactively up to those 60 days. In other words, at the time the person filed a claim, he or she may have already satisfied up to 60 days of the deductible and at the point that he or she is determined to be eligible, that person would begin receiving benefits immediately. It's recognition that LTC isn't just a drop off the cliff. It's insidious and especially with a cognitive impairment it happens over time. This approach has a great deal of appeal. Consumers understand why a deductible keeps costs down and they like this "look back" provision.

Because benefit awareness and understanding are closely linked to interest in LTC insurance, the company should consider developing an educational program to (1) trigger awareness of the importance of preparing for LTC needs, and (2) heighten the understanding of what consumers' current insurance plans do or do not cover with respect to LTC. Consumers think that LTC might be covered under Medicare or even a Medicare supplement plan, but they also think that their current medical plan covers LTC as well. Part of our presentation on enrollment meetings and our communication materials explain what their current medical plan does not cover. Great pains are taken to explain the interrelationship with the employer's medical plan to both employees and retirees. We wouldn't consider offering a program through an employer who simply wanted to offer it because it was a neat idea. We insist on a full communication program that starts with articles in the company and retiree newsletters that are educational and informational on LTC issues before we even talk about plan design.

The final conclusion is the most important to us. Employers represent the best distribution channel for the LTC insurance product. Our research indicated that 67% of consumers would purchase an LTC product through their employer or former employer even if it was on an employee-retiree pay-all basis on the belief that the employer had performed due diligence on their behalf. I can't emphasize that enough. The belief on the part of consumers that the employer had negotiated the best price and the best plan design that they could possibly purchase on the outside motivates individuals to buy insurance and it's what gave us the incentive to jump into the market. In conclusion, I hope there are some valuable ideas that will give you pause for consideration as you rethink how you might restructure your current benefit plans.

The three speakers have covered a great deal of ground related to LTC issues. The needs of the public were determined by theoretical design and assessed through focus groups. Those needs were translated into four different product design groups.

MR. CORLISS: A number of issues have been covered. Inflation protection is one we're going to hear more about. Nonforfeiture values is probably the hottest one. Mark told us that the extended-term form of a nonforfeiture value is the one he would select if somebody held a gun to his head and said pick one. In the work done in my organization, we have reached the same conclusion. The reasons that Mark raised to support his opinion were the cost of different programs and the administrative issues. I would like to emphasize concern about the valuation issues associated with many of those options. Extended term seems to give the least problems. Could we have some reaction from anyone in the audience on nonforfeiture values?

MR. SENA: I just want to back up what Mark said. We didn't do a lot of research on which nonforfeiture values are preferred in our focus groups. However, we showed the focus groups two sets of premiums and explained the essential elements of nonforfeiture. The consumers just aren't willing to buy it. It's clearly an affordability issue. I understand the need for something that has long-term value to it. But right now it is clearly price that drives the buying decision once the recognition has been made that consumers need the protection.

MR. CORLISS: It comes through clearly time and time again that people don't want to pay the costs associated with additive benefits. Many people have expressed this point to regulators. Hopefully and expectantly, added benefits such as nonforfeiture values, which I believe will arise in regulations in some form within the next year, will be voluntary.

MR. SENA: In the larger account group market, the first Request for Proposal (RFP) usually asks for a product design that includes a nonforfeiture benefit and another without a nonforfeiture benefit. This is the so called "basic" plan versus the "premium" plan. The employer plans to allow employees the choice between a basic plan and a preferred plan.

MR. ROBERT M. DUNCAN, JR.: Most companies with an inflation benefit use a 5% inflation rate. Do any of you have an opinion on what the inflation is in the marketplace? Will it be fueled by the availability of more products and people being covered? Mark, on the nonforfeiture issue, do you believe that some kind of nonforfeiture benefit ought to be mandatory as an option for those who believe they can afford it? It could be designed for them as part of a guaranteed premium product that will not raise rates in the future.

MS. FULKS: CNA has an annual survey (we're into the second survey so we've got one year's worth of inflation) where we contact every nursing home with more than 50 beds. Obviously, we don't get answers back from all of them. But from those we've received so far this year, there has been about a 7% increase in the basic cost of nursing home costs from 1990-91. We're doing a similar survey for home care, but we haven't completed enough of it to have even preliminary results.

MR. ROWLEY: It's hard to determine overall inflation for LTC services because there are so many providers that come into play, such as care agencies, nursing homes, adult day care, or what have you. The thing that concerns me about future inflation is the requirement that nursing homes provide more care. I don't think that's going to be free care. I see an opportunity in the short run for inflation to be high.

On your second question, I guess I don't have a great objection to nonforfeiture benefits being mandated as an option. That's certainly more palatable than requiring it in every plan. I think we need to have an option for someone to purchase a plan without nonforfeiture because of the affordability issue. On the guaranteed premium question, I don't see that coming quickly due to the lack of data that exists currently. I'm not a big believer in premium guarantees or noncancelable at this point.

MR. MARK E. BILLINGSLEY: Mark, you talked about loss ratios varying by different age bands and different benefit options. With required loss ratio levels, obviously, you need to project which benefit options are going to be picked and what your age distribution is going to be. Are you making sure that all your loss ratios are above the required levels or are you concerned about your distributions being expected?

MR. ROWLEY: When you certify minimum loss ratio, you do have to make a lot of assumptions as to which benefits and which issue ages you're going to sell to. I don't think it's possible to have every conceivable situation over the minimum loss ratio, especially at the lower issue age.

MR. BILLINGSLEY: Do you tend to be conservative on the distribution for the ones that are high?

MR. ROWLEY: I like to do that.

MR. BILLINGSLEY: Frank, you were talking about group plans. What level of participation do you have? Do you have required level of participation and what have you determined is adequate?

MR. SENA: Our minimum employer size is a 1,000 eligible employees. We don't have a minimum participation. On the preselection basis, we do look for employers that are going to give us at least 5% participation from employees. We expect to pull an additional 5-10% from spouses, retirees, and parents.

MS. FULKS: At CNA, we go down to 500 lives as a result of having much better than expected participation in the first year. Our average over 35 cases is about 12%. However, it has gone as high as 23% of employees. There is extra enrollment from spouses. Fifty percent of employees who sign up, also sign up their spouses. We have a number of plans that have gotten 15%, 16%, 17%, and 18% of active employees. It really depends on how well employees respond to all of the benefits that the employer offers.

MR. SENA: We've turned down a case on a first-time flexible benefits plan because I think there are too many other issues involved. In those situations with new programs, employees are trying to figure out how they got shortchanged.

MR. ROWLEY: Technically speaking, we have offered down to two lives on our group product.

MR. RICHARD C. DREYFUSS: Speaking from a large employer's standpoint, who has a flexible benefit arrangement, it seems this product would be a lot more attractive if it could qualify under Section 125 of the Code. Are any of your

organizations actively lobbying this issue in the halls of Washington to get this changed?

The Health Insurance Association of America is lobbying very strongly to have this product put under Section 125. There are several bills pending right now before Congress that include that kind of stipulation.

MS. FULKS: From a large employer's perspective, our view would be that an LTC insurance product is essentially a contingent defined benefit plan. We would highly encourage the employees to participate in an existing 401K plan to meet the defined contribution side of this issue. Since the 401K is already tax effected, the need to have nonforfeiture values is diminished under those considerations.

MR. SENA: The problem is tax clarification. LTC would be much more attractive to buyers on a pretax basis.

MR. MORRIS SNOW: Frank spoke about guaranteed issue for spouses. I know that CIGNA is one carrier that doesn't do guaranteed issue for spouses. I'm wondering if any members of the panel have any experience on what happens when you offer guaranteed issue to spouses? Have there been any claims? Have they been serious? Is everything you know about it anecdotal or is there something actually known at this point?

MS. FULKS: We don't offer a true guarantee issue. We ask the spouses to assert that they are not impaired in any of the stated ADLs at the point that they sign up. Yes, we have seen claims. The claims, however, were almost all preexisting cognitive disorders that the physician defended saying that they were not in existence at the time that we would have underwritten. So if they hadn't admitted to those conditions when they were underwritten and their physician backed them up, we'd be in the same position whether we use this screen or fully underwrote them.

MR. SENA: The employee has to be actively at work (whatever that definition happens to be). Any company should use a similar definition with the spouses, if the spouses are actively at work at some other corporation. In terms of claims, I don't know of any problems or abuses, but this is still relatively new.

MS. FULKS: We've had so few claims it's hard to say that the spouses are more of a problem than the employees or the retirees. The small number of claims has been pretty well equally distributed.