Full Report

U.S. Long-Term Care Insurance Persistency

A Joint Study Sponsored by LIMRA and The Society of Actuaries

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Thank you to Gary Corliss for his valuable input into this study.

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Overview

This report presents results from the third in a series of studies — conducted jointly by LIMRA and the Society of Actuaries (SOA) Long-Term Care Experience Committee — that focus on recent long-term care insurance (LTCI) industry persistency. The study examines persistency experience by reporting on both voluntary lapse and total termination activity for participating companies during calendar years 2005 through 2007. The overall results indicate that LTCI persistency continues to increase, with the individual side improving more than the group side.

Highlights

- Voluntary lapse rates continue to decrease with overall results, all policy years combined, for the 2005–2007 experience study at 3.8 percent versus 5.2 percent from the 2002–2004 period.
- The average issue age for LTCI business decreased to 59 from 62 for individual insureds and increased from 46 to 50 for group certificate holders. The average issue age for individual insureds has continued to decrease since the 2000–2001 experience study, indicating that customers understand the advantages of purchasing more affordable coverage at a younger age.
- The overall individual LTCI voluntary lapse rate in the current study is 2.7 percent, a noteworthy improvement from the 4.3 and 4.2 percent for the 2002–2004 and 2000–2001 experience studies.
- Voluntary lapse rate for employer-sponsored business also improved, 6.4 percent for the current study compared to 7.5 percent for the 2002–2004 experience study. Note that, consistent with prior studies, the results for group business are based on a small number of companies.
- In general, policies with lower annual premiums exhibit higher rates of voluntary lapse than those with greater annual cost.
- Policies with marital discounts continue to exhibit lower rates of voluntary lapse than those without the discount.
- For total termination rates, including both voluntary lapses and deaths, individual and group LTCI business continue to show different patterns by policy year. Group plans experience higher rates of termination in the early policy years, corresponding to their higher voluntary lapse rates, than individual plans. However, in later policy years, this trend reverses as deaths become a more significant part of total termination rates for the older individual insureds.

LAPSE DEFINITION For purposes of this report, voluntary lapse includes termination for any reason other than death. This includes termination for non-payment of premium, expiration of benefits, conversion, and in most cases, terminations for an unknown reason. This is consistent with the definition of voluntary lapse applied to past LIMRA and Society of Actuaries LTCI experience studies, and allows for better comparison of results over time.

Recommendations

This report examines lapse experience on LTCI products for various product factors. The study can be used for industry benchmarking as well as for background information for product development and planning processes.

The data contained in this report can help companies to identify factors that impact LTCI persistency as well as to validate pricing assumptions. While the study participants represent a significant portion of the industry, they do not represent the entire industry and differences in results by company may vary. These results should be used only as a guide or supplement to the experience of the individual carriers. Companies should carefully consider underlying differences such as distribution, product design, product development, and marketing strategy between their own organizations and the participants.

To aid the reader in interpreting the information contained in this report, an Excel spreadsheet providing exposure and lapse information by policy factor and data cell is available on both LIMRA and SOA websites (www.limra.com and www.soa.org).

Data Description

Data supporting the results of this study was collected jointly and collaboratively with the Society of Actuaries Long-Term Care Experience Committee data calls. Both claims and lapse studies of LTCI are based on these industrywide data collection efforts. As with past LTCI persistency studies, the data collected includes individual and group LTCI plans but not life-LTCI or annuity-LTCI combination products.

A significant increase from the 14 participants in the prior study, 21 companies contributed exposure records covering calendar years 2005– 2007, representing roughly 60 percent of the LTCI industry. Total exposures used in the study increased 40 percent from the 2002–2004 experience study. Approximately 70 percent of the exposure relates to individual LTCI plans, and 30 percent relates to employer group plans.

Table 1 shows exposure by issue year and policy form. More detailed characteristics of the exposure data are discussed in this report, including breakdowns by issue age, attained age, gender, elimination period, maximum daily benefit amount, lifetime maximum benefit level, premium payment frequency, distribution channel, inflation protection coverage, underwriting type, and risk classification.

Table 2 shows coverage activity during the observation period. Reported termination for reasons unknown has decreased from prior studies but continue to represent a relatively large portion of the reported status codes. However, termination due to death continues to be understated.

The average issue age for LTCI business in force during the current observation period is 59 for individual coverage and 50 for group. For individual coverage, this average has steadily dropped since the 2000–2001 experience study when the average issue age was 66. And this number is expected to decrease as over half of recent individual LTCI buyers were between the ages of 40 and 59 while over half of group LTCI buyers were under the age of 50, based on LIMRA's 2008 Individual & Group LTCI Supplement. With increasing awareness of future long-term care needs, buyers of LTCI are more likely to take advantage of the lower premiums for policies issued at younger ages.

TABLE 1 —
EXPOSURE BY ISSUE YEAR AND POLICY FORM

Issue year	Individual (13 companies)	Employer Group (17 companies)
Prior to 1992	2.8%	7.1%
1992–1995	6.7%	10.8%
1996–1999	21.8%	14.7%
2000	10.6%	6.9%
2001	10.6%	8.8%
2002	13.0%	9.4%
2003	12.8%	10.2%
2004	9.0%	10.7%
2005	6.8%	10.5%
2006	4.4%	7.5%
2007	1.5%	3.4%
	100%	**100%**

TABLE 2 —
LTCI COVERAGE ACTIVITY REPORTED DURING THE OBSERVATION PERIOD
Percentage of Study Exposure

	Individual	Employer Group
Lapse for nonpayment of premium	2.0%	0.7%
Expiration of benefits	–	–
Death	0.9%	0.5%
Conversion	–	–
Terminated for reasons unknown	0.6%	5.4%
In force	96.4%	93.3%

– Less than one tenth of 1 percent

Voluntary Lapse Experience

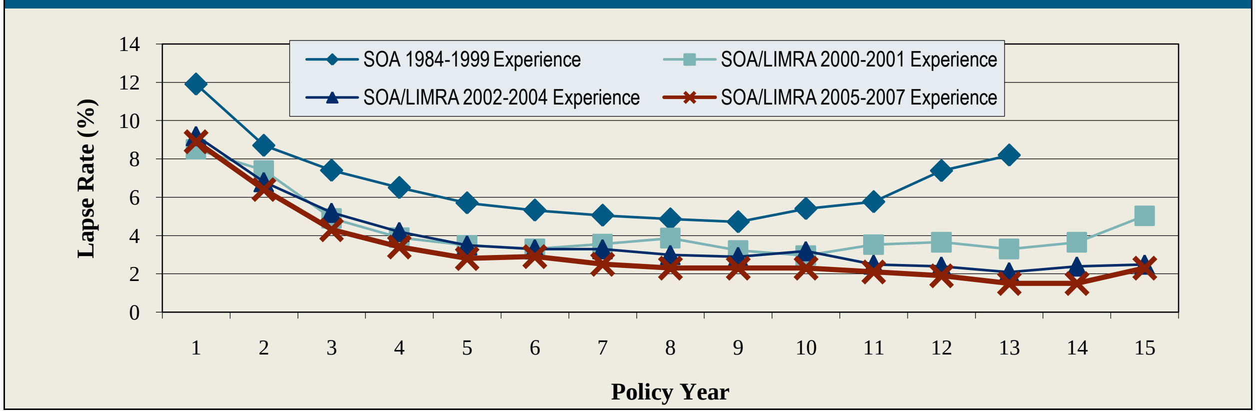
Persistency for LTCI products continues to increase. Voluntary lapse rates for all policy years combined average 2.7 percent for individual plans, 6.4 percent for employer group plans, and 3.8 percent for all policies combined for the 2005–2007 experience study.

Only data from one participating company (down from three in the prior study) was excluded from the voluntary lapse analysis because they could not provide detailed information on the cause of termination. This data is included in the total termination section of this report.

Voluntary Lapse Rates by Policy Year

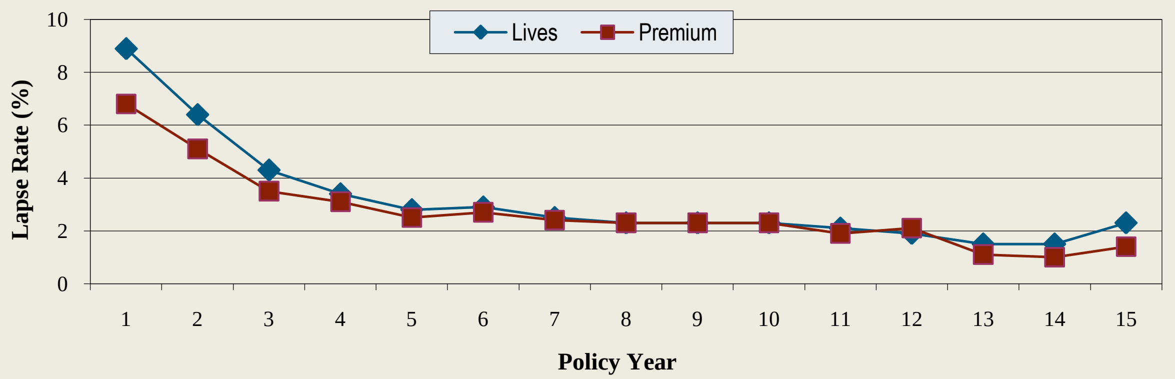
Figure 1 shows the trend in LTCI lapse experience from several past studies. Lapse rates for the 2005–2007 experience study decreased over the 2002–2004 experience study for all policy years. First-year lapse rates average 8.9 percent, down from 9.2 percent in the prior study. Lapse rates decrease rapidly to 2.8 percent in the first 5 policy years, then linger around 2 percent thereafter.

FIGURE 1 —
VOLUNTARY LAPSE RATES BY POLICY YEAR (LIVES)



For this study, 20 companies provided premium data. Consistent with prior studies, lapse rates on a premium basis are lower than those based on lives, indicating that less expensive policies are more likely to lapse (Figure 2). This can be attributed to two factors. First, policies with higher premiums generally have higher benefits. With the rising cost of LTCI over the years, policyholders shopping around for new policies are less likely to find similar benefits with competitive premiums. Second, policyholders who understand the need for LTCI and want the protection are less likely to lapse and are likely to purchase more expensive policies with higher benefits.

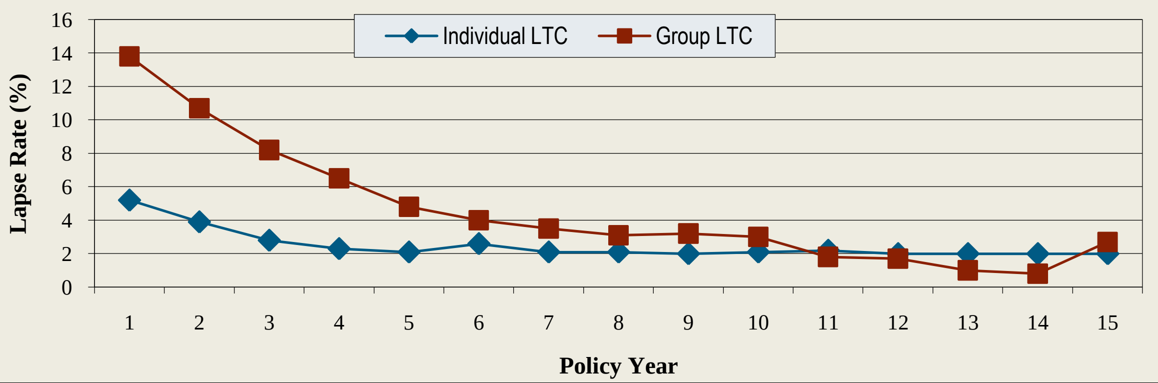
FIGURE 2 —
VOLUNTARY LAPSE RATES BY POLICY YEAR (LIVES VERSUS PREMIUM)



Voluntary Lapse Rates by Policy Form

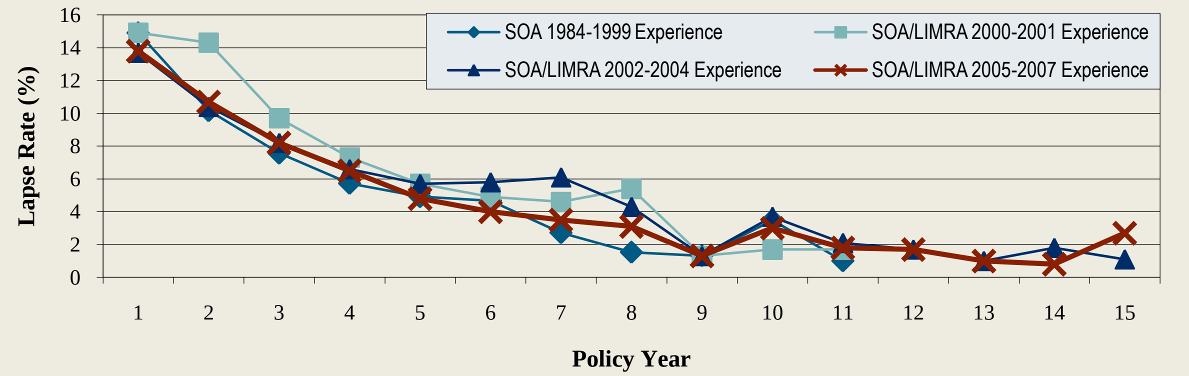
Figure 3 shows the lapse rates for individual and group LTCI. Similar to the current study, the trend from prior studies shows group LTCI lapse rates consistently higher than individual LTCI lapse rates, as well as having a steeper slope in the early durations. However, group persistency experience exceeds that of individual LTCI after policy year 10, with the exception of a few cases lapsing in the later durations.

FIGURE 3 —
VOLUNTARY LAPSE RATES BY POLICY FORM AND POLICY YEAR



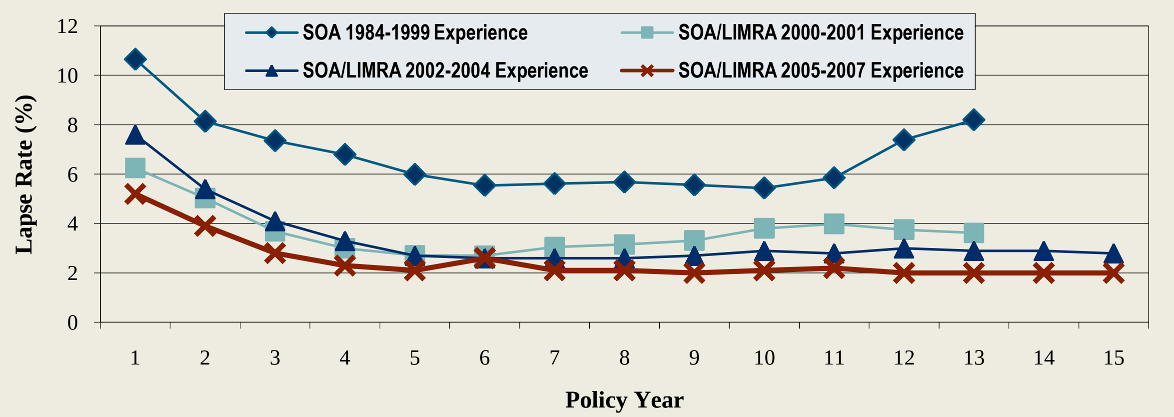
Lapse rates for group LTCI during the first four policy years are similar to the 2002–2004 experience study (Figure 4). Even though lapse rates increase between policy years 5 to 11 from the prior study, the overall lapse rate decreased to 6.4 percent from 7.5 percent. This is due to the small improvements in the early policy years which have greater exposures.

FIGURE 4 —
GROUP LTCI VOLUNTARY LAPSE RATES



Individual plans also continue to see increased persistency in the 2005–2007 experience study (Figure 5). Lapse rates are lower in all policy years compared to the 2002–2004 experience study, with the exception of policy year 6. The higher lapse rate in policy year 6 is coincidentally due to poor experience from a handful of companies. This variance is seen in later lapse analysis, but does not necessarily represent an emerging trend in LTCI experience.

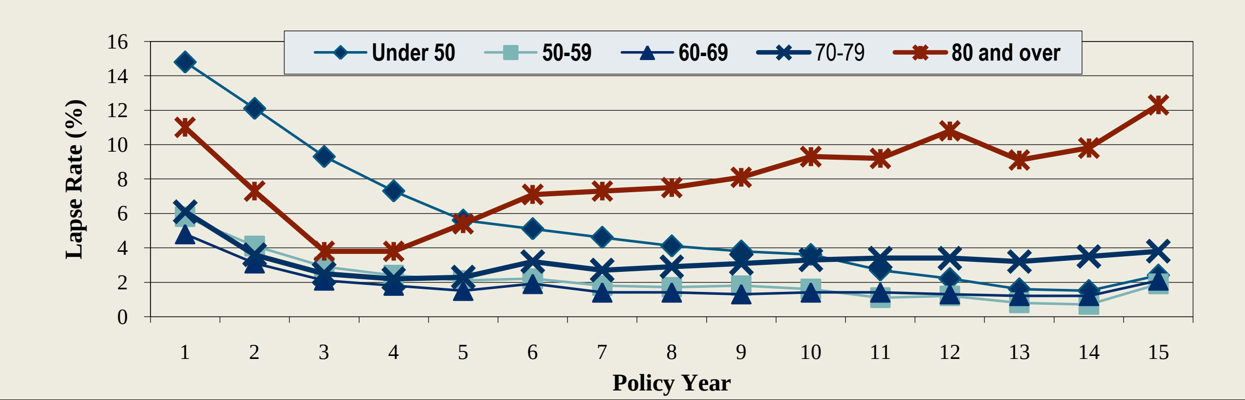
FIGURE 5 —
INDIVIDUAL LTCI VOLUNTARY LAPSE RATES



Voluntary Lapse Rates by Issue Age

Issue ages between 60 and 79 account for half of the total exposures for the 2005–2007 experience study, as it did in the prior study. Figure 6 shows lapse rates by issue age cohorts. Lapse experience for those in the 50–59 and 60–69 issue age cohorts are nearly identical, with the age 70–79 issue age cohort following closely. The under-50 issue age cohort consists of mostly group LTCI, which tends to have a higher lapse rate in early policy years. While the issue age 80 and above cohort — consisting of all individual LTCI — show a similar trend, the higher lapse rate is due to an affordability issue. Increases in lapse rates for this cohort at later durations is due to claims and possibly unreported mortality.

FIGURE 6 —
VOLUNTARY LAPSE RATES BY ISSUE AGE COHORT AND POLICY YEAR



Voluntary Lapse Rates by Attained Age

For voluntary lapse rates by attained age, lapse rates decrease with age, hitting a low around the retirement age group and then increasing in older ages as claims and mortality come into play (Figure 7). Group lapse rates actually cross over and fall below individual rates during early retirement age range. This crossover age has increased from age 64 in the 2002–2004 experience study to age 71 in the current study. This is likely due to the fact that as employees delay their retirement, fluctuation in the older age workforce will continue to push lapse rates for group plans higher than individual lapse rates.

Voluntary Lapse Rates by Gender

The LTCI exposure base for the 2005–2007 experience study is approximately 56 percent female and 44 percent male, with an even split for group plans and 58 percent female for individual plans. Figure 8 shows lapse rates by gender for the first 15 policy years. Voluntary lapse rates for males and females are similar, 3.7 percent for females and 4.0 percent for males for all policy years combined. As noted in the prior study, females have lower lapse rates for policy years less than 10 and higher lapse rates thereafter.

Figure 9 shows lapse rates by gender and issue age. Males exhibit slightly higher voluntary lapse rates than females for issue ages under 60.

FIGURE 7 —
VOLUNTARY LAPSE RATES BY ATTAINED AGE AND POLICY YEAR

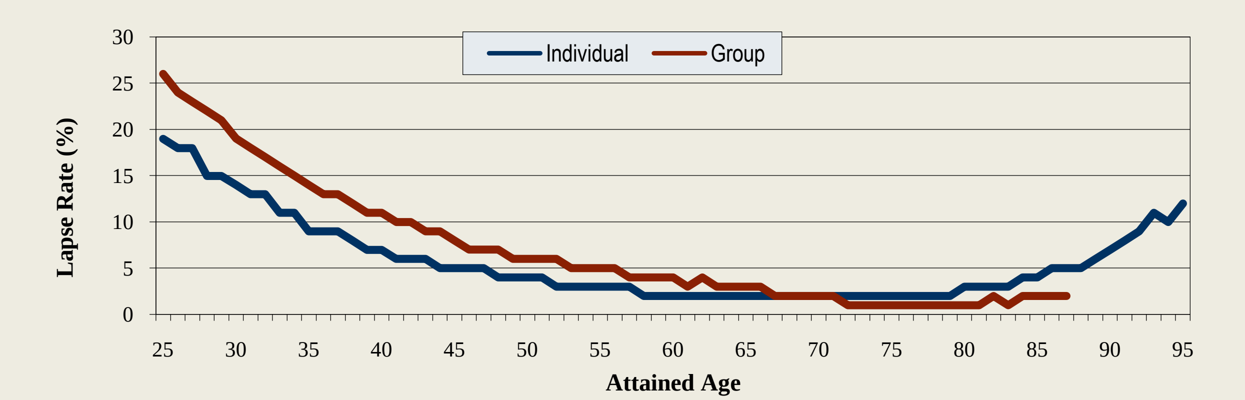


FIGURE 8 —
VOLUNTARY LAPSE RATES BY GENDER AND POLICY YEAR

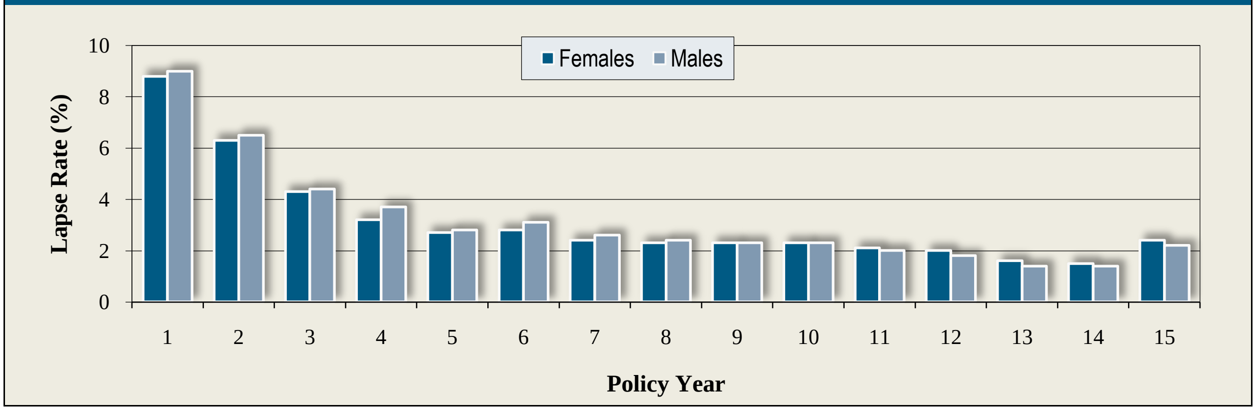
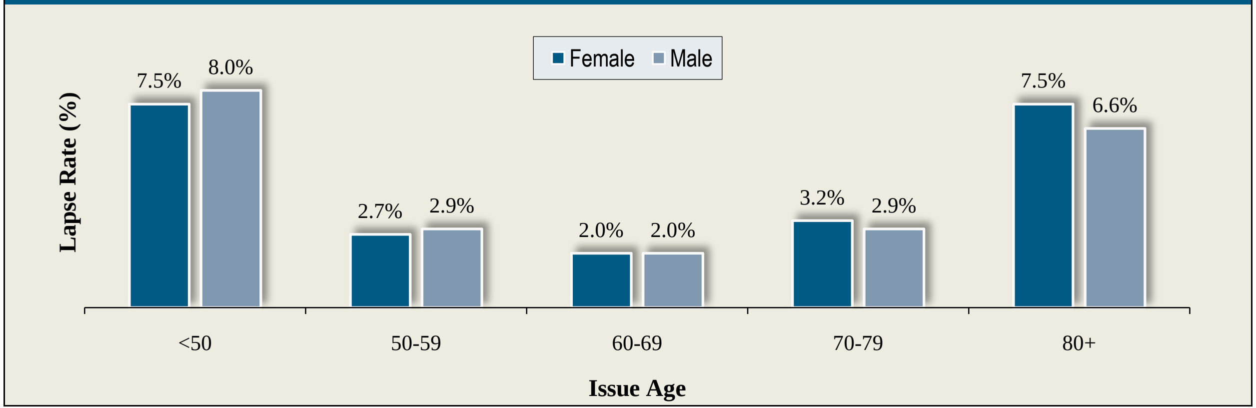


FIGURE 9 —
VOLUNTARY LAPSE RATES BY GENDER AND ISSUE AGE COHORT



Voluntary Lapse Rates by Elimination Period

The LTCI data submitted for the 2005–2007 experience study allow for the analysis of Nursing Home Facility Care (NHFC) elimination periods and Home and Home Health Care (HHC) elimination periods separately rather than as one combined elimination period. Due to the limited number of NHFC-only and HHC-only plans, the analysis below incorporates comprehensive plans where benefits are applicable in both facilities and elimination periods are likely to vary by facility type. Twenty participating companies provided data on elimination periods, with approximately 81 percent of the exposure base providing elimination periods for NHFC and 98 percent providing elimination periods for HHC.

TABLE 3 —
VOLUNTARY LAPSE RATES BY ELIMINATION PERIODS FOR NHFC

Elimination Period	Exposure	Lapse Rate
0 day	4%	4.0%
10-20 days	4%	2.1%
30 days	12%	2.3%
45-60 days	10%	2.4%
90-91 days	48%	2.9%
100 days	18%	1.5%
Over 100 days	4%	2.5%
All Elimination Periods	**100%**	**2.5%**

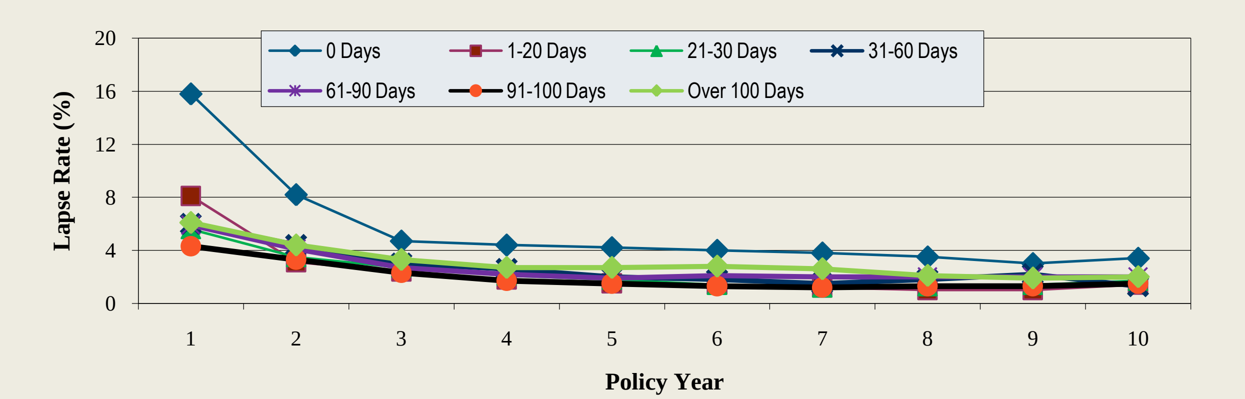
TABLE 4 —
VOLUNTARY LAPSE RATES BY ELIMINATION PERIODS FOR HHC

Elimination Period	Exposure	Lapse Rate
0 day	5%	3.3%
10-20 days	4%	2.8%
30 days	11%	2.4%
45-60 days	10%	2.9%
90-91 days	52%	4.9%
100 days	15%	1.5%
Over 100 days	3%	1.9%
All Elimination Periods	**100%**	**3.7%**

Overall voluntary lapse rate based on lives is 2.5 percent for NHFC and 3.7 percent for HHC. Both benefit types concentrate at the 90-day elimination period, representing 48 percent of NHFC plans and 52 percent of HHC plans (Tables 3 and 4). Compared with NHFC plans, the lapse rates of HHC plans are higher in the core elimination periods due to a greater presence of group LTCI business.

Differences in experience by elimination period are greatest in the early policy years, with the shortest elimination period exhibiting the highest lapses. The negative correlation between premiums and elimination periods (the shorter the elimination period, the higher the premium) may seem at odds with the overall theme that lower premium policies have comparatively higher lapse rates. However, the higher lapse rate of plans with no elimination period is likely due to an affordability issue. Less affluent policyholders are more likely to need LTCI right away, compared with more affluent policyholders who can cover the initial facility costs for weeks or even months. For companies that provided NHFC data, Figure 10 shows lapse rates by elimination period and policy year.

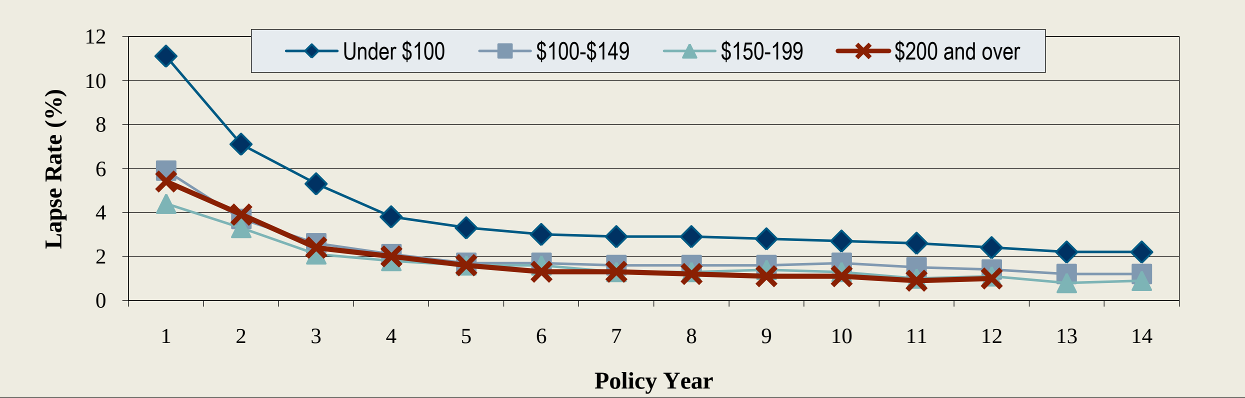
FIGURE 10 —
VOLUNTARY LAPSE RATES FOR NHFC BY ELIMINATION PERIOD AND POLICY YEAR



Voluntary Lapse Rates by Maximum Daily Benefit

Figures 11 and 12 show lapse rates for companies that provided data on maximum daily benefit amounts for NHFC and HHC. Maximum daily benefits between $100 and $149 represent the largest portion of the exposure base: 45 percent of NHFC plans and 37 percent of HHC plans. Policies with a maximum daily benefit of $100 or less exhibit the highest rates of lapsation, with HHC plans slightly higher due to the greater portion of group plans. This is consistent with the overall theme that lower benefit and lower premium policies have comparatively higher lapse rates.

FIGURE 11 —
VOLUNTARY LAPSE RATES FOR NHFC BY MAXIMUM DAILY BENEFIT AND POLICY YEAR



Voluntary Lapse Rates by Lifetime Maximum Benefit

Consistent with prior studies, the results from the 2005–2007 experience study show that LTCI products with limited lifetime benefits, either in terms of a number of days or a dollar amount, exhibit higher rates of voluntary lapsation than plans with unlimited benefits. While lapse rates for limited lifetime benefits of HHC are greater compared to NHFC, both benefit types exhibit similarly lower lapse rates for plans with unlimited benefits (Figures 13 and 14).

FIGURE 12 —
VOLUNTARY LAPSE RATES FOR HHC BY MAXIMUM DAILY BENEFIT AND POLICY YEAR

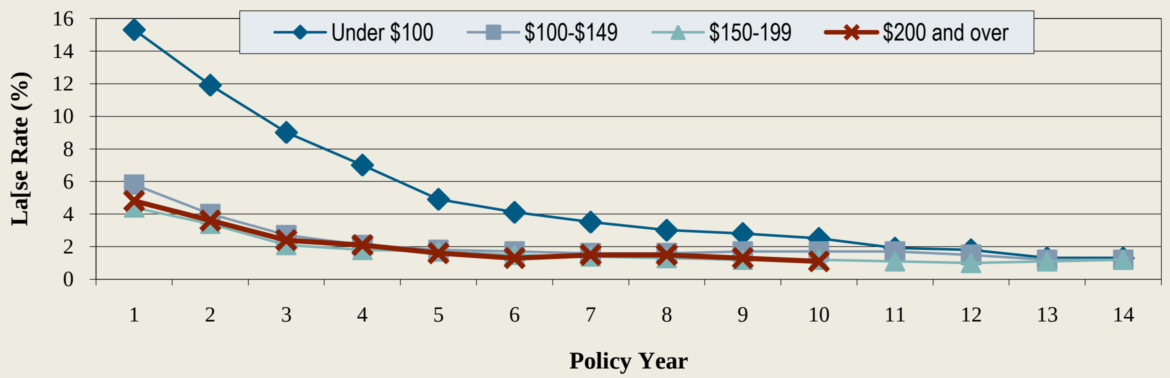


FIGURE 13 —
NHFC VOLUNTARY LAPSE RATES BY MAXIMUM BENEFIT TYPE AND POLICY YEAR

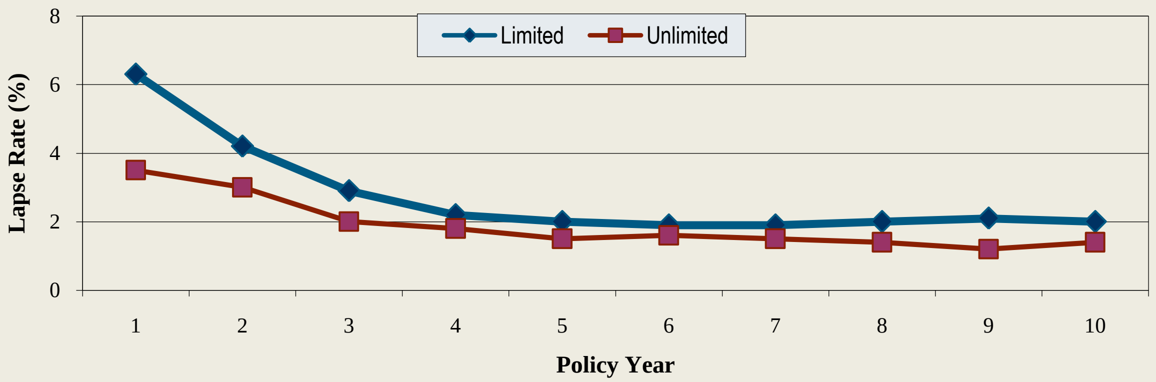
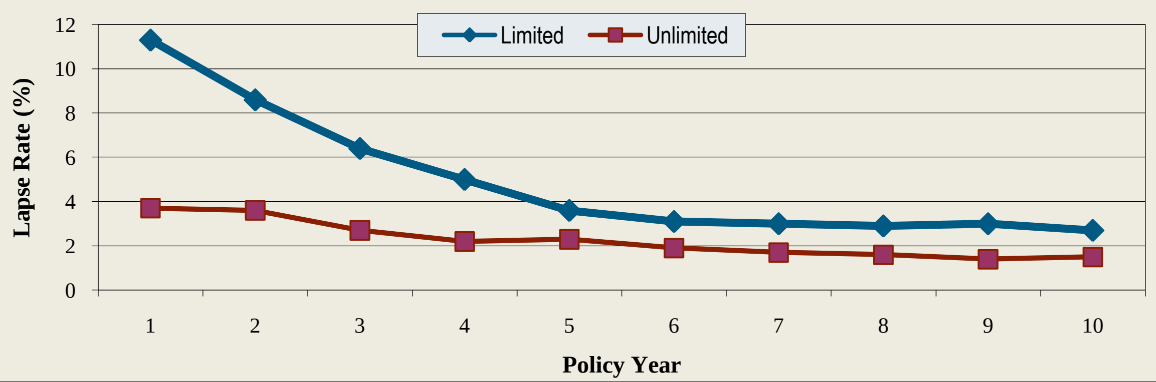


FIGURE 14 —
HHC VOLUNTARY LAPSE RATES BY MAXIMUM BENEFIT TYPE AND POLICY YEAR



For plans with limited dollar benefits, there are greater differences in experience at various maximum benefit levels. Figure 15 shows voluntary lapse rates for NHFC plans. Plans with higher dollar maximums are less likely to lapse. HHC plans showed similar trends, with higher lapse rates for plans with maximum benefits less than $100,000 than compared to NHFC plans (Figure 16). Policies with higher maximum benefits show very little variance in lapse rates after policy year 5 for either type of facility coverage.

FIGURE 15 —
NHFC VOLUNTARY LAPSE RATES BY LIMITED LIFETIME MAXIMUM BENEFIT DOLLARS AND POLICY YEAR

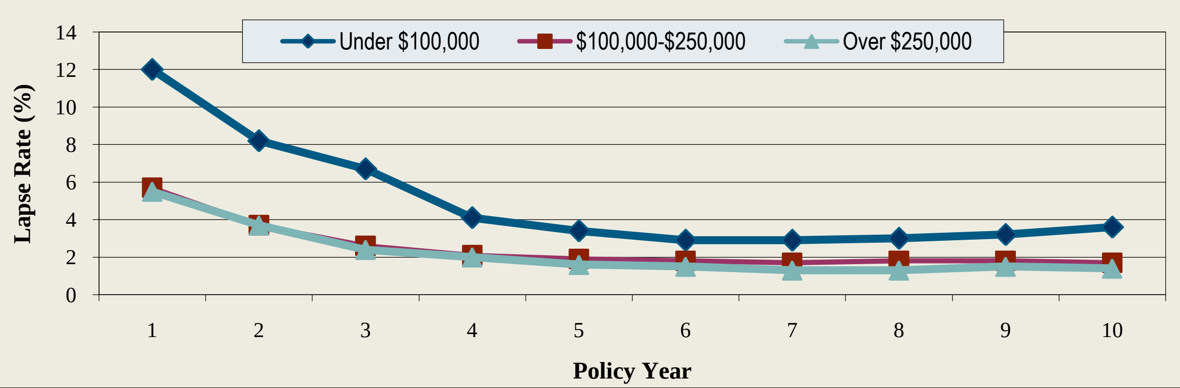
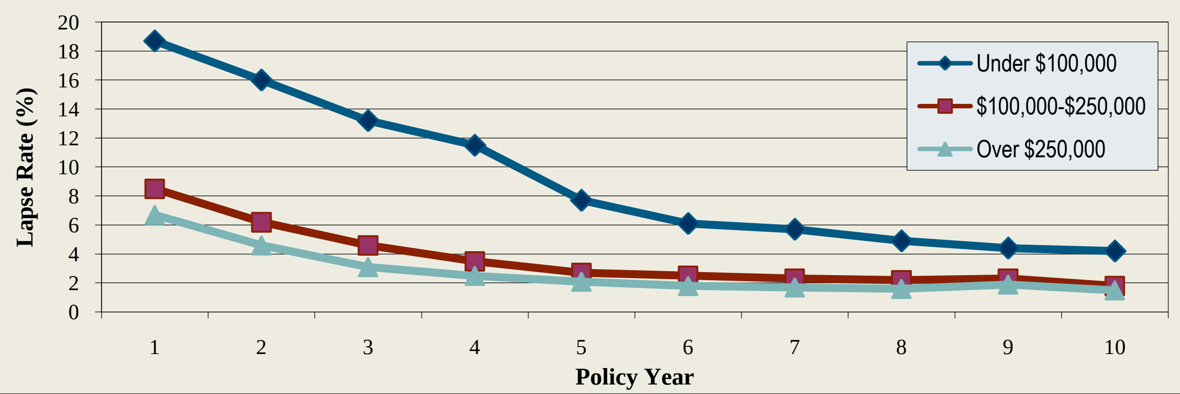


FIGURE 16 —
HHC VOLUNTARY LAPSE RATES BY LIMITED LIFETIME MAXIMUM BENEFIT DOLLARS AND POLICY YEAR



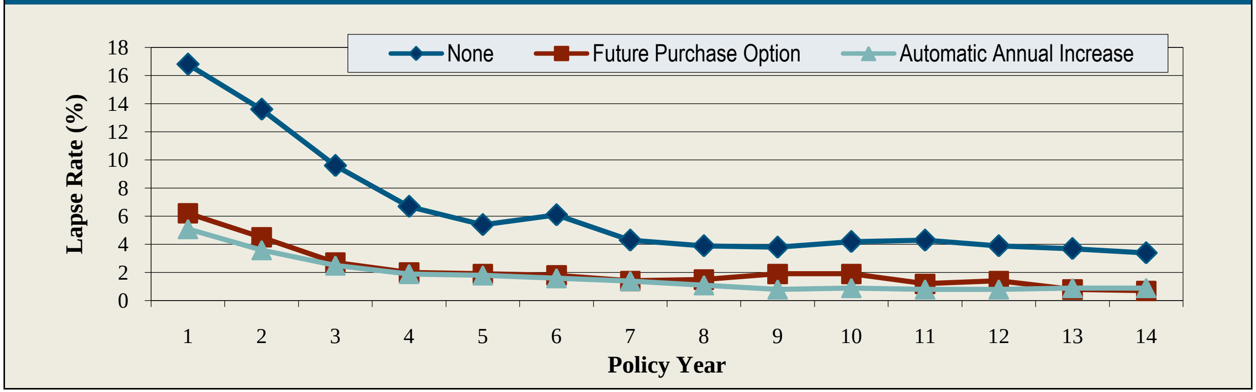
Voluntary Lapse Rates by Inflation Protection Coverage

Of the 13 companies that provided data on inflation protection coverage, roughly 69 percent of the exposed lives have policies that provide some inflation protection in the form of annual benefit increases, including plans that involve the pre-funding of future benefit increases. Twenty-four percent are sold with the option to purchase additional coverage at times specified in the contract, usually without new underwriting requirements.

Overall, plans with the richer inflation protection exhibit the highest levels of persistency (Figure 17). While the experience for policies with either of the two inflation protection options are fairly similar, policies with an automatic annual increase have a slightly lower lapse rate in most years. The overall voluntary lapse rate for policies with an automatic annual increase is 2.3 percent, compared with 2.5 percent for policies with future purchase options.

Policies without any form of inflation protection show a lapse increase in policy year 6 due to the experience of a small number of companies.

FIGURE 17 —
VOLUNTARY LAPSE RATES BY LEVEL OF INFLATION PROTECTION AND POLICY YEAR



Voluntary Lapse Rates by Martial Discount Offering

Compared to the prior study, the disparity in persistency has significantly widened based on whether or not the policy is sold with a marital discount. Individual policies sold without a marital discount experience higher lapse rates than individual policies with a marital discount, in all policy years (Figure 18). This analysis focuses only on individual plans because very few group plans offer a marital discount. For policy year six, the increase in lapse rate for policies sold without a marital discount is due to the poor experience of a few companies as seen in the other lapse analysis. For all policy years combined, policies sold with a marital discount have an average lapse rate of 2.0 percent compared with 3.9 percent for policies sold without a marital discount.

Voluntary Lapse Rates by Distribution Channel

Based on the nine participating companies that provided data by distribution channel, approximately 41 percent of the policies are sold through the career or captive agent channels, down from just over 50 percent for the prior study. This decrease is due partially to the different participating companies as well as the increased market share of independent agents over the last few years. Figure 19 shows the career agency system produced lower lapse rates than the independent channels. After the first eight policy years, the lapse rate stabilizes around 4 percent for independent agents and 1.5 percent for career and captive agent channels.

FIGURE 18 —
VOLUNTARY LAPSE RATES BY MARITAL DISCOUNT AND POLICY YEAR
Individual Plans

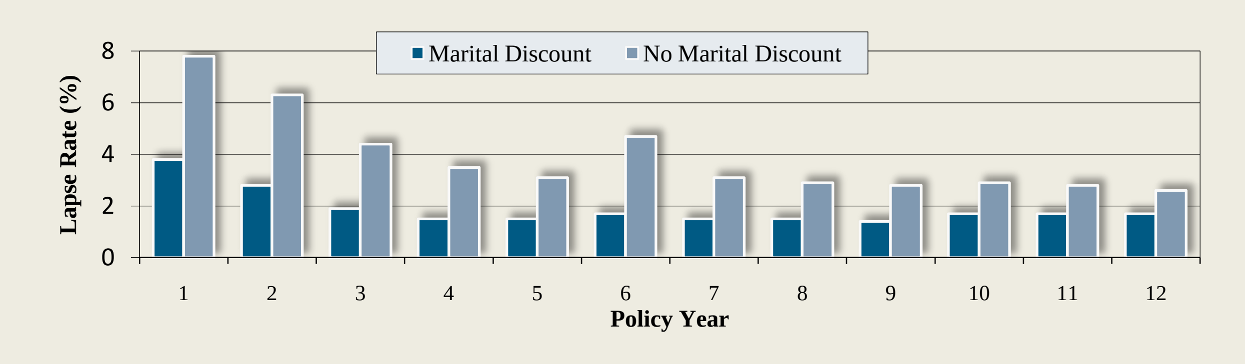
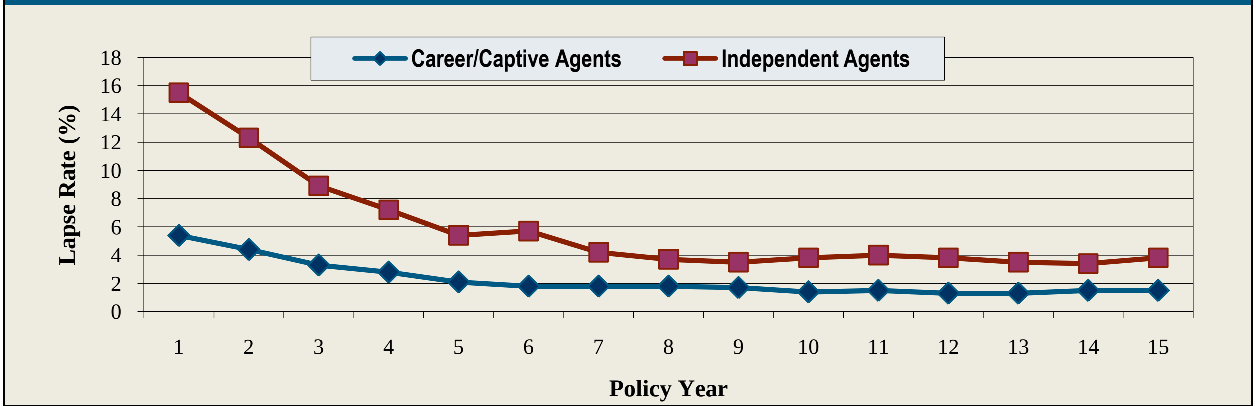


FIGURE 19 —
VOLUNTARY LAPSE RATES BY PRIMARY DISTRIBUTION CHANNEL AND POLICY YEAR



Voluntary Lapse Rates by Underwriting Type

Fifteen companies provided underwriting data for the 2005–2007 experience study. Roughly 79 percent of the exposed lives hold policies issued with full medical underwriting. While lapse rates for the first two policy years are almost indistinguishable between underwriting types, fully underwritten policies experience lower rates of voluntary lapsation in policy years 3 to 6 (Figure 20). However from policy year 7 on, lapse rates are lowest for simplified issue (SI) and guaranteed issue (GI) policies. The higher lapse rate for SI/GI policies in policy year 6, as with policies sold without a marital discount, is due to poor experience of a few companies. For all policy years combined, policies issued with full medical underwriting have an average lapse rate of 4.0 percent versus 4.3 percent for policies issued with SI/GI underwriting.

Voluntary Lapse Rates by Risk Classification

Fifteen participating companies provided data by risk class. Roughly 66 percent of the exposure base is issued on a standard basis. While overall persistency has increased over the prior study, lapse trends between risk classes have changed. This change is due in part to the different mix of companies for the current and prior studies. For the first three years, the preferred class has the lowest lapse rate, as it did in the 2002–2004 experience study. This changes after policy year 4 where plans with standard ratings exhibit slightly lower lapse rates (Figure 21). Consistent with the prior study, plans with a preferred rating experienced the lower lapse rates during the first four policy years. However, this trend reverses after policy year 6. A likely cause of this is that the initial premium is too heavily discounted and lapses occur due to rate increases in later policy years. The spike in lapse rates in policy year 6, when lapse rates for the preferred risk class approached 4 percent, is due to the poor experience of a few companies.

FIGURE 20 —
VOLUNTARY LAPSE RATES BY UNDERWRITING TYPE AND POLICY YEAR

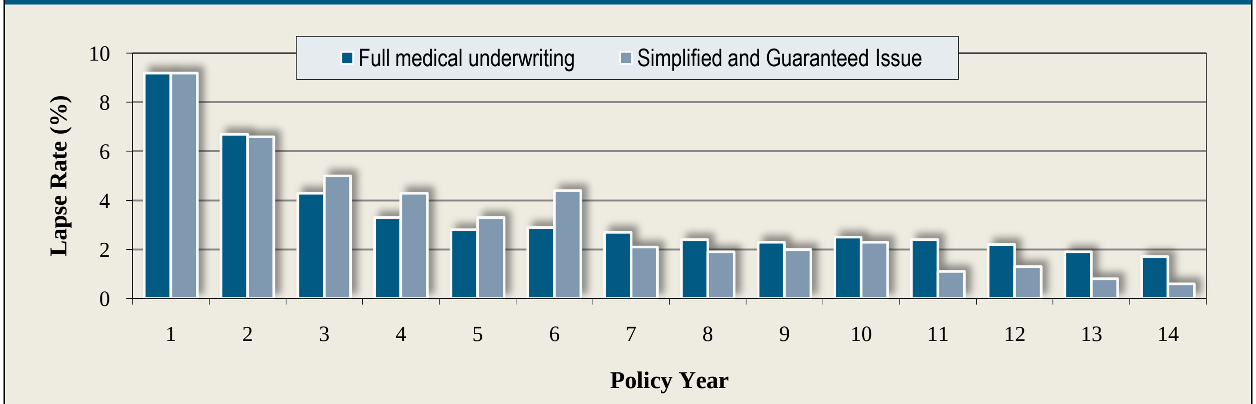
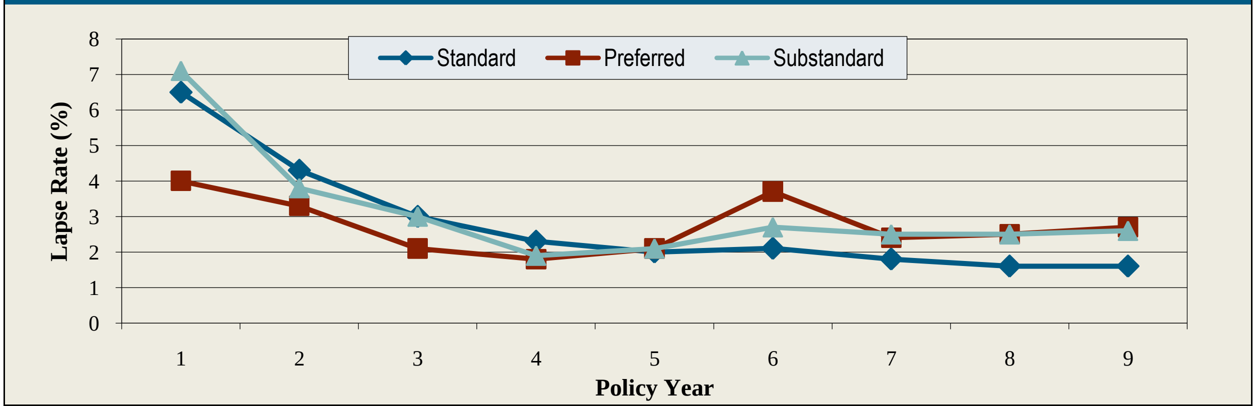


FIGURE 21 —
VOLUNTARY LAPSE RATES BY RISK CLASSIFICATION AND POLICY YEAR



Voluntary Lapse Rates by Premium Payment Mode

LTCI lapse rates generally increase as the number of premium payments per year increases, with the exception of monthly premium mode (Figure 22). This is consistent with other insurance products. The possibility exists that every bill a policyholder receives provides another opportunity to question the purchase decision. In addition, individuals who choose to pay larger amounts less frequently tend to be less concerned with cost and affordability.

Total Termination Experience

This section of the report presents total termination rates, voluntary lapses, and deaths. Since the data underlying the 2005–2007 experience study indicates that some companies may be incorrectly coding deaths as either lapses or termination for an unknown cause, it is important to examine total termination rates as well as voluntary lapse rates. This will assist companies that may be pricing using a standard industry mortality table in combination with a separate lapse assumption to determine whether their total termination assumptions are reasonable. In addition, the one participating company whose data is excluded from the voluntary lapse analysis due to the fact that they could not provide detailed information on the cause of termination, is included in the results of this section.

Total Termination Rates by Policy Form

Much like voluntary lapse experience, the rates of total termination for LTCI business continue to decrease at all policy durations (Figure 23). The total termination rate for the current study is 4.6 percent, down from 5.9 percent for the 2002–2004 experience study.

Due to differences in the average age of the buyer, individual and group LTCI business exhibit different patterns of total termination by policy year (Figure 24). While group plans experience higher voluntary lapsation in early policy years, these plans experience lower total terminations in later years converging toward 2 percent. Total terminations for individual plans begin to increase after policy year 5, when the impact of mortality is greater for the older age buyers of individual LTCI plans, and settles under 5 percent.

FIGURE 22 —
VOLUNTARY LAPSE RATES BY PREMIUM PAYMENT MODE AND POLICY YEAR
Individual Plans

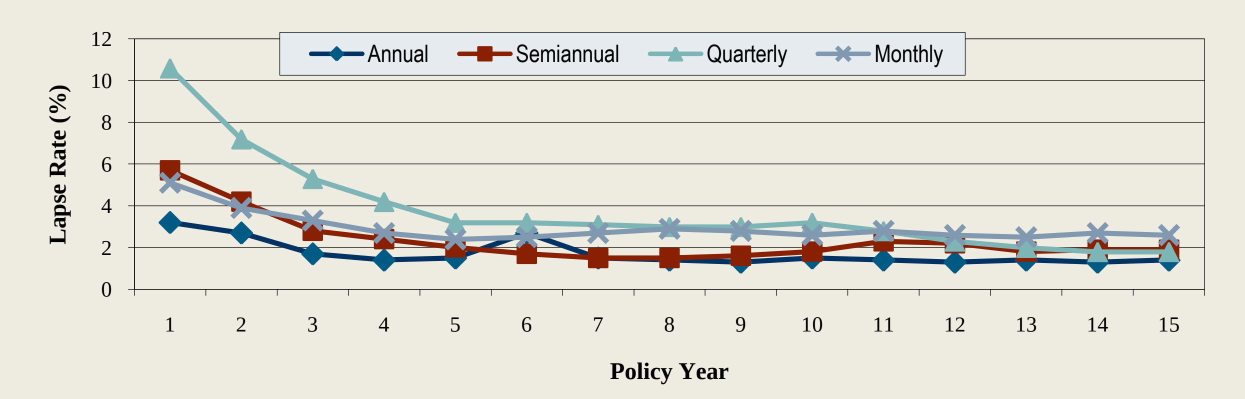


FIGURE 23 —
TOTAL TERMINATION RATES BY POLICY YEAR

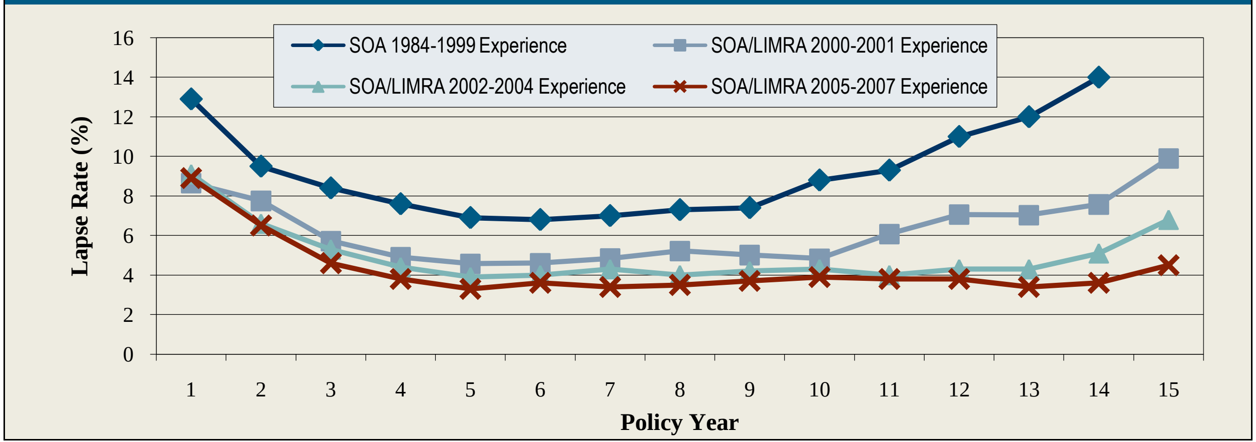
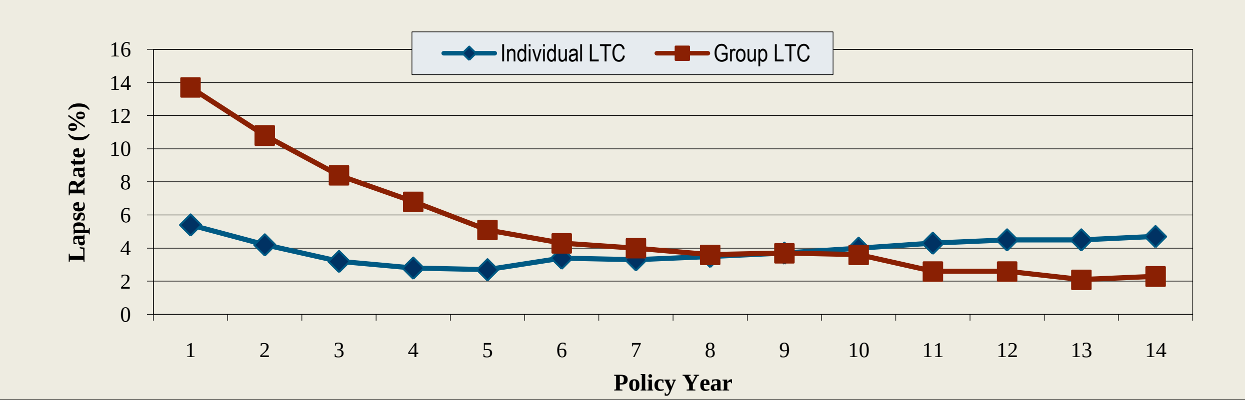
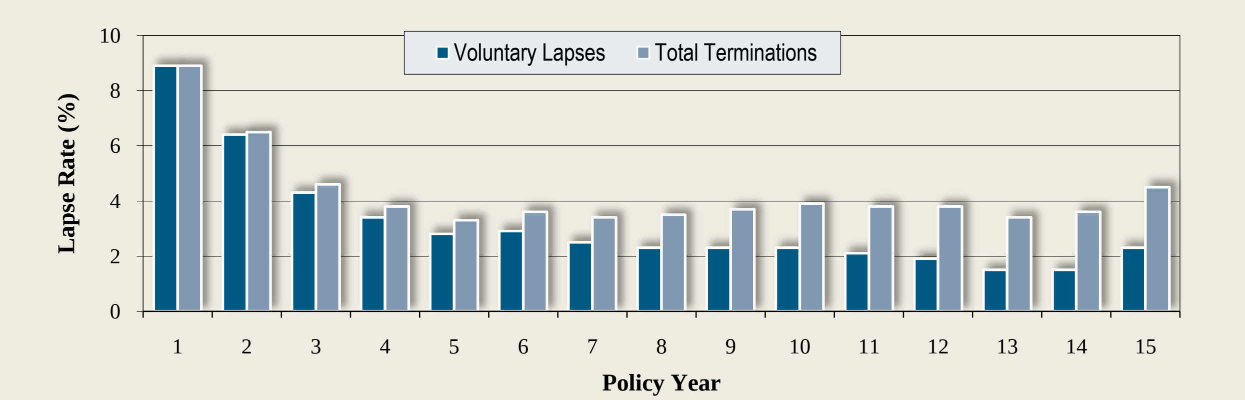


FIGURE 24 —
TOTAL TERMINATION RATES BY POLICY FORM AND POLICY YEAR



When comparing rates of total termination with rates of voluntary lapsation, significant differences begin to occur in policy year 7 (Figure 25). As voluntary lapse rates trend toward a decline, total termination rates begin to increase gradually — as the impact of mortality is greater on terminations. Most of this impact comes from individual plans with overall individual voluntary lapse rate at 2.7 percent versus 3.7 percent for individual total termination rates. For group plans, the differences between voluntary and total termination lapse rates are minimal until well past policy year 10. The overall group voluntary lapse rate is 6.4 percent compared with 6.9 percent for group total termination rates.

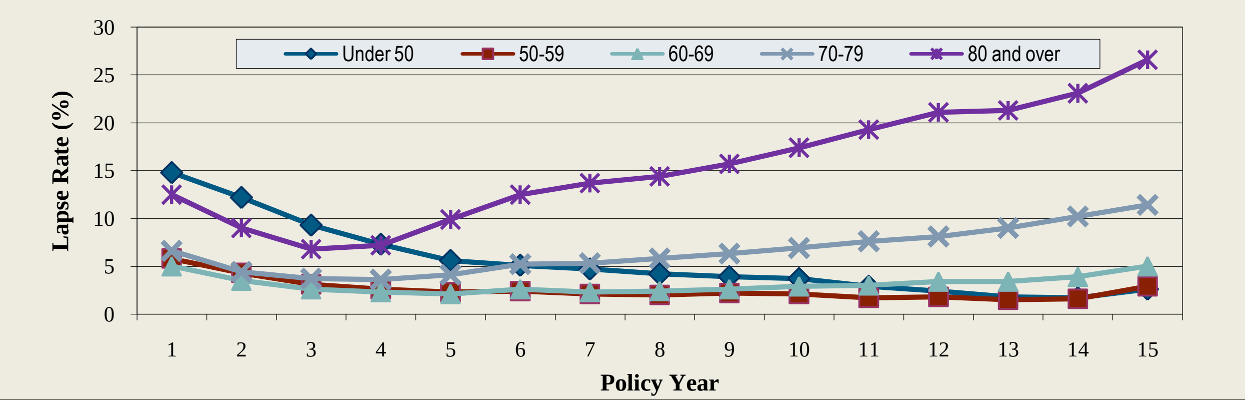
FIGURE 25 —
VOLUNTARY LAPSE AND TOTAL TERMINATION RATES BY POLICY YEAR



Total Termination Rates by Age

Figure 26 shows total terminations by issue age group. There is a clear pattern that total termination rates increase with policy years for older issue age groups. For issue ages 80 and older, death begins to make up a larger portion of the total terminations starting in policy year 4. A similar trend is seen in the 70–79 issue age cohort, but starting at a later duration and also to a lesser degree.

FIGURE 26 —
TOTAL TERMINATION RATES BY ISSUE AGE COHORT AND POLICY YEAR



Voluntary lapse and total termination rates by attained age shows little difference in the younger and pre-retirement ages. Both rates drop to 2.3 percent between ages 60 to 69. While voluntary lapse rates continue to decline in the 70s, mortality becomes a greater factor in total termination rates (Figure 27). As mentioned in prior sections, voluntary lapse rates begin to increase around attained age 80. This is more likely due to the increase of unreported deaths included in voluntary lapses rather than a shift in policyholder behavior at the older ages.

FIGURE 27 —
VOLUNTARY LAPSE AND TOTAL TERMINATION RATES BY ATTAINED AGE

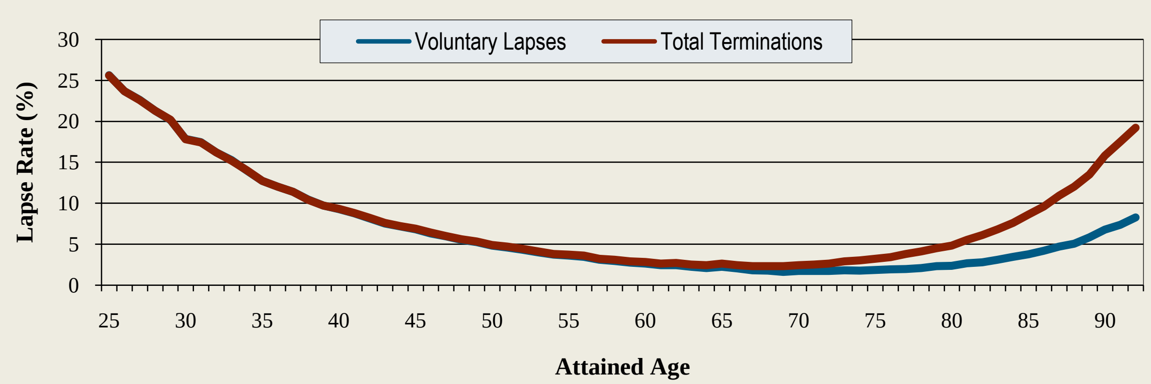
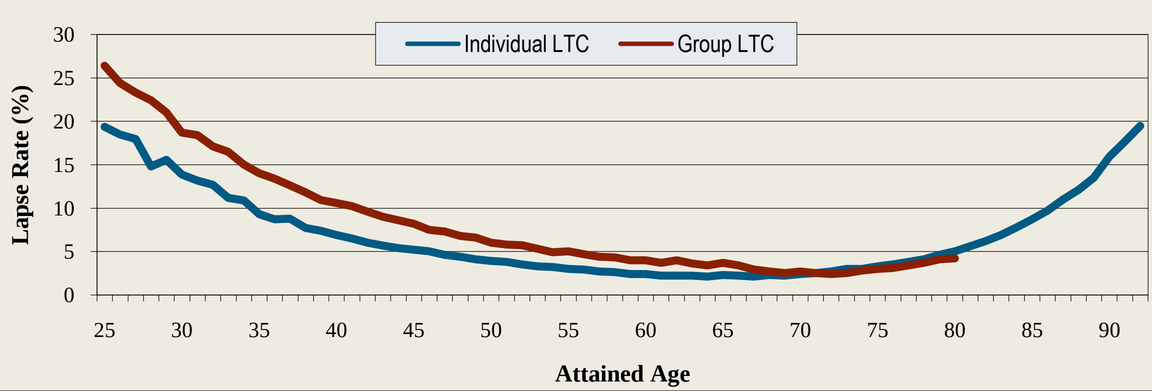


Figure 28 shows total termination rates for group versus individual plans by attained age. For both voluntary lapses and total terminations, rates for the group and individual plans cross at attained age 71. In the case of voluntary lapse rates, the group plans continue to stay level at around 1.4 percent after the crossover. Even though total termination rates for group plans drop below the rates for individual plans, both show a similar increasing pattern after age 71.

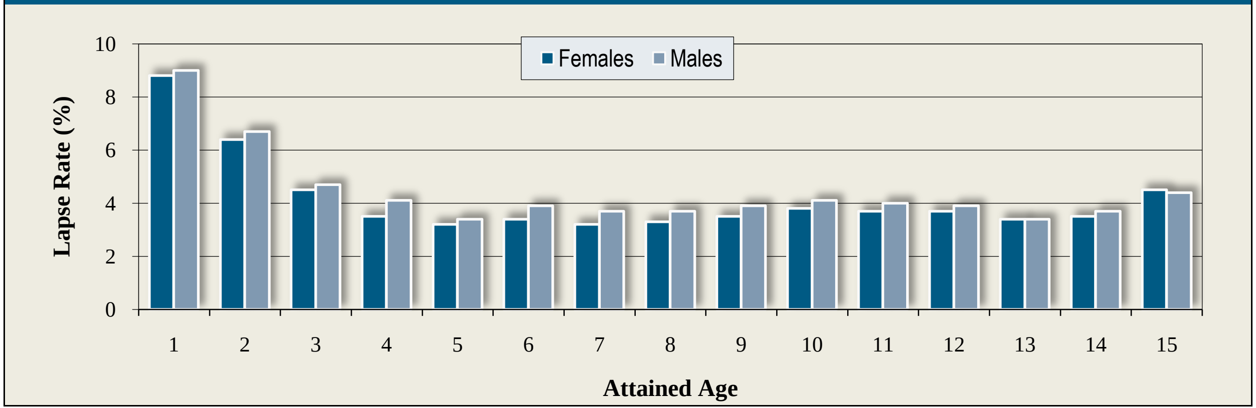
FIGURE 28 —
TOTAL TERMINATION RATES BY ATTAINED AGE AND POLICY FORM



Total Termination Rates by Gender

Similar to voluntary lapse experience, total termination rates do not vary greatly by gender (Figure 29). For the 2005–2007 experience study, overall termination rate for males is 4.9 percent compared to 4.4 percent for females. The gap in termination rates between male and females (0.5%) compared with voluntary lapse (0.3%) is undoubtedly, and not unexpectedly, due to higher male mortality.

FIGURE 29 —
TOTAL TERMINATION RATES BY GENDER AND POLICY YEAR



Methodology

For purposes of this report, voluntary lapse includes termination for any reason other than death. This includes termination for non-payment of premium, expiration of benefits, conversion, and in most cases, terminations for an unknown reason. This is consistent with the definition of voluntary lapse applied to past LIMRA and Society of Actuaries LTCI experience studies, and allows for better comparison of results over time.

The observation period for the study is 2005 to 2007. Participants were asked to provide information on their entire in-force block. The lapse rates shown are based on 100 percent of lives submitted, except in cases where a company's volume of business was so large or its experience was so different from that of other participants such that overall industry results would be unduly skewed. In this case, a sample of the participant's total in force was included in the study so that industry results had appropriate company representation.

The data underlying this report was collected on a policy-level, seriatim, basis as this allows for a more detailed analysis of the factors influencing lapse results than studies conducted on an aggregated data basis.

Lapse rates are calculated as follows:

$$\text{Annualized Lapse Rate} = 100 \times \frac{\text{Number of Lives Lapsed During the Year}}{\text{Number of Lives Exposed to Lapse During the Year}}$$

The number of lives exposed to lapse is based on the length of time the policy is exposed to the risk of lapsation during the year. Lapses contribute exposure for the full 12 months. For voluntary lapses, terminations due to death are not included in the amounts lapsing and contribute to exposure for only the fraction of the policy year they were in force. The individual company data underlying this study produces a pattern of voluntary lapses by policy year that indicates some deaths may have been coded incorrectly as lapses. To address this issue, both rates of voluntary lapsation and total termination rates for LTCI plans are examined.

Industry lapse rates are calculated as a weighted average of the experience of all contributing companies; companies with larger in-force blocks will affect the overall results more than companies with smaller in-force blocks. However, results for each policy factor analyzed are also examined at the company level to insure that reported experience is not overly affected by one or more large participant blocks.

Lapse rates are not reported for any data cell for which there were fewer than three companies or less than 1,000 policies exposed.

Experience is reported exactly as calculated. No attempt was made to level or smooth results.

Participating Companies

American Pioneer Life	Mutual of Omaha Life
American Progressive	Northwestern Long Term Care
Constitution Life	Pennsylvania Life
CUNA	Penn Treaty American Corp.
Genworth Financial	Prudential Financial
John Hancock	Pyramid Life
Knights of Columbus	State Farm Life
Massachusetts Mutual Life	Thrivent Financial
MedAmerica	Union Bankers
Medico Life	Unum
MetLife Companies	

Related Links

The following links are valid as of 11/01/10.

U.S. Long-Term Care Insurance Persistency Experience (2007)
This report represents the second in a series of studies conducted jointly by LIMRA International and the Society of Actuaries (SOA) Long-Term Care Experience Committee that focuses on long-term care insurance (LTCI) persistency. The study examines voluntary lapse and total termination activity for calendar years 2002 through 2004. Overall, the results indicate that LTCI persistency has continued to increase.
http://www.limra.com/abstracts/abstract.aspx?fid=5633

U.S. Long-Term Care Insurance Persistency Experience (2004)
This report represents the first study conducted jointly by LIMRA International and the Society of Actuaries (SOA) Long-Term Care Experience Committee that focuses on long-term care insurance (LTCI) persistency. The study examines voluntary lapse and total termination activity for calendar years 2000 and 2001. Overall, the results indicate that LTCI persistency has continued to increase; however, the current improvement seems to be coming from the individual lines of business rather than the group lines.
http://www.limra.com/abstracts/abstract.aspx?fid=4482

Individual Life Insurance Persistency Update (2009)
This study examines individual life insurance persistency experience for 39 participating U.S. companies for observation years 2004 and 2005. The report provides lapse rates separately for traditional whole life, term, universal life, and variable universal life products. Lapse results are reviewed for a variety of policy and product features, which explain some of the variations in experience from one study period to the next.
http://www.limra.com/abstracts/abstract.aspx?fid=10127

SOA Long-Term Care Intercompany Study
Based on data from over 40 participating companies, this report series looks at Long-Term Care claims.
http://www.soa.org/research/experience-study/ltc/default.aspx

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