



SOCIETY OF ACTUARIES

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Fourth Intercompany LTC Report Published

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In mid-December, the Society of Actuaries Long-Term Care Experience Committee released its fourth report. The complete report can be found on the SOA Web site as follows:

www.soa.org/ccm/content/areas-of-practice/special-interest-sections/long-term-care-insurance/1984-2001-ltc-ins-inter-study

This document is the fourth intercompany study by the SOA LTC Experience Committee. Previous reports were published January 1995, February 2000 and September 2002. The four reports of this committee sponsored by the SOA and the Long-Term Care Persistency Experience Report of 2004 jointly sponsored by LIMRA and the SOA are the only publicly available and published reports of experience on lives insured under private LTC insurance plans in the United States. This report, as well as the previous three, is based on data gathered for policies issued back to 1984. Data in this report has been combined and analyzed from 20 organizations (24 insurers) that provided information to further the public and private knowledge of long-term care insurance.

Data has been collected on policies issued

from January 1, 1984 through December 31, 2001. Claims incurred on policies during this time frame were followed from claim inception through the earlier of claim termination or June 30, 2002. Allowing a six-month period to report incurred claims allows for the capture of most of the incurred but not reported claims as of year-end 2001.

Insurers were asked to provide information on 100 percent of the policies issued unless their volume would potentially alter the intercompany nature of the study. Under those circumstances, such an insurer was requested to submit a substantially representative portion of their issues that would allow an unbiased contribution but still protect the confidentiality of that company's experience.

Exposure records increased almost 50 percent from the 2000 report, reaching 3.9 million exposure records with 12.5 million exposure years. Parenthetical percentages below show comparable distribution in the previous study.

- o 22 percent of the exposure was in the first policy year
- o 21 percent of the exposure was in the second exposure year
- o 15 percent of the exposure was in the third exposure year
- o 10 percent of the exposure was in the fourth exposure year
- o 69 percent of the exposure was on individual insureds (73 percent)
- o 31 percent of the exposure was from group insureds (27 percent)
- o Average issue age of all insureds in the data base is 61 (63)
- o Average issue age of individual insureds is 67 (68)
- o Average issue age of group insureds is 47 (49)
- o Average attained age of the insureds in the database is 64
- o Female insureds represent 59 percent of the exposure (60 percent)

The number of claimants almost doubled from just over 50,000 in the 2000 report to 95,000 claimants in this report. Benefits paid increased from \$1.3 billion in the previous report to \$4.1 billion in this report. Although decreasing as a percentage of policies claimed, the majority of claims continue to be attributable to the use of nursing home care.

- o 80 percent of the claims were for nursing home care (91.5 percent)
- o 15 percent of the claims were for home care (8.5 percent)
- o 5 percent of the claimants received both NH & HC benefits
- o 75 percent of all claims (open and closed) have a claim duration of one year or less (75 percent)
- o 87 percent of claims in the database are closed
- o Average attained age on incurral date of claim was 79.9 years (78.8)
- o Female claimants incurred 70 percent of the claims and 70 percent of the benefit dollars (66 percent)

Each section of this report covers one or more of several areas for which sufficient data is available. The areas that are included in this report are:

- o Gender
- o Issue Age
- o Attained Age
- o Elimination Period
- o Benefit Period (Limited vs. Unlimited)
- o Policy Duration
- o Individual vs. Group
- o Nursing Home vs. Home Care
- o Issue Year Groupings
- o Experience Year Groupings
- o Underwriting Type
- o Benefit Escalator Clause
- o Distribution Source

The compiled data continues to verify some long held expectations relative to long-term care:

- o Incidence rates rise steadily by attained age and policy duration
- o Mortality rates increase steadily by attained age and policy duration
- o Morbidity and mortality selection is apparent in early policy durations

Other general results of interest:

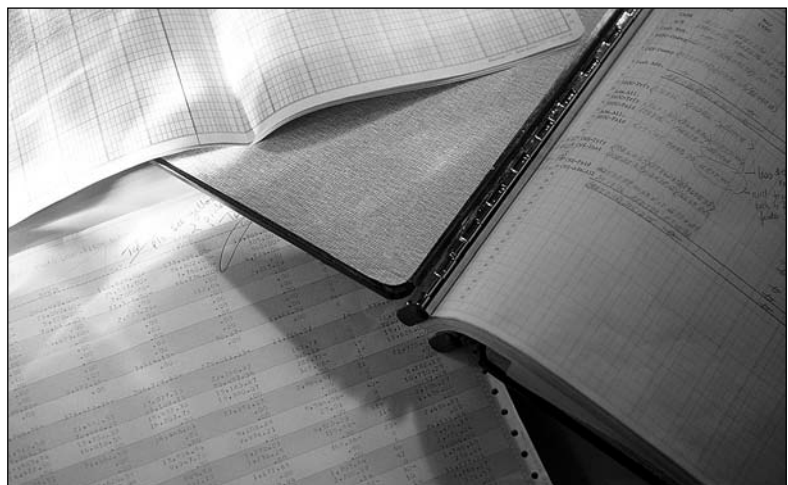
Incidence Rates

- o Overall incidence rate is 69 percent (up from 60 percent)
- o Select period may be at least 10 years
- o Reductions over time in previous reports may be leveling off

Claim Continuance

- o Increases with increasing age at claim until about age 89, then decreases
- o Average length of claim is 393 days

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- o 68 percent of nursing home claims end in death
- o 49 percent of home care claims end in recovery

Cause of Claim

- o Alzheimer's claims continue to be the most frequent, longest and most expensive as well as trending upward
- o Alzheimer's is the leading cause for nursing home care claim
- o Alzheimer's is the leading cause for home care claim after age 75
- o Cancer is the leading cause of home care claim through age 75
- o Cancer and injury are large for home care, but are short in duration

Mortality

- o Overall mortality rate is 1.1 percent
- o Male mortality is 40 percent greater than female (49 percent)
- o Mortality is considerably lower than the 83 GAM, A2000 and the new 2001 VBT
- o Disabled lives mortality is 20 times that of Active lives
- o Disabled lives mortality for LTCI is 150-200 percent greater than for disabled lives under disability insurance
- o Select period may be at least 10 years
- o GSI mortality appears less than both full and simplified underwriting (in the past, it was higher than full but lower than simplified underwriting)

Voluntary Lapse Rates

- o Average annual lapse rate has been 7.4 percent
- o Average annual rate was 7 percent for the data solely for the current study period
- o Rates decrease for the first nine policy years
- o Group insurance lapses start out higher than individual, then are lower after the first six years
- o Rates for insurance solicited by enrollers is noticeably lower than for all other types of distribution

Total Termination Rates

- o Average annual total termination rate is 8.9 percent
- o Average annual rate is 8.1 percent for the data solely for the current study period
- o Inputted mortality rates from total and voluntary termination data indicate that mortality is much lower than current life industry mortality

Home Care

- o Average number of weekly home visits were 3.8 per week (down from 4.29 visits per week in the previous study, but higher than the 3.25 days per week in the study before that one)
- o Arthritis claimants use the most days of care per week (4.7 days)

Limited versus Unlimited Benefit plans

- o Incidence rates are not consistently higher for either longer or unlimited benefit plans compared to shorter benefit plans
- o Voluntary Lapse Rates do not differ significantly between maximum benefit periods in this report compared to the previous report

Preparations have already begun for the next LIMRA/SOA LTC Persistency Study and the next SOA LTC Intercompany Study. For those companies which have not contributed, they may contact Gary Corliss to be added to the mailing list for the next set of instructions. ✱



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