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Joint French Institut Des Actuaires and Society of Actuaries Project on LTCI

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This article is an update on the Joint Society of Actuaries and the French Institut des Actuaires project on longterm care insurance (LTCI). The project's goal is to examine the similarities and differences in the two markets and the related actuarial aspects. A session on this subject is planned for the 2015 SOA Annual Meeting & Exhibit in Austin.

The two markets show differences in the way governmental benefits tie to private insurance, thus causing private policies to be of different sizes in the markets—larger in the United States and smaller in France. The private market information is distinct with the French market holding experience information closely while the U.S. market shares experience through the SOA experience study effort—a blind study but available to all. The main data source outside the French insurer's own data is their reinsurer.

These differences, and many more, have informed actuaries in both countries and challenged them to think about other ways to do the work they are tasked with doing.

The project began in late September with participants meeting biweekly to listen to presentations and discuss aspects of the two markets. Additionally, three workshops have been started to look at the actuarial aspects of pricing, reserving and risk monitoring, as practiced in both countries. Summaries of the presentations are below.

Several misconceptions need to be clarified at the start:

- While French LTCI is healthy in terms of insurance company participation and market penetration, the U.S. population is better covered by U.S. companies: LTCI pays about 7 percent of annual LTC costs in the United States, while French insurance companies contribute 3 percent. However, the definition of LTC costs in each country needs to be clarified to make these estimates more relevant.
- While most French policies are stand-alone, they are not supplement to the national Social Security benefits, as Medicare Supplement policies are to Medicare in the United States. "Social Security," social insurance programs of the same name, "Sécurité Sociale" in French,

are prominent in both countries but are very different.

- LTCI in France, as in the United States, is still marginal in the insurance market, and its risks are ill-defined.

U.S. MARKET, SUMMARY OF PRESENTATIONS

Since most *Long Term Care News* readers are familiar with U.S. LTC, we have only provided an outlined list of the U.S. speakers and topics of their presentations.

- **U.S. Insurance Market Past and Present**, Al Schmitz
 - Adverse experience
 - High capital requirements
 - Long-tailed risk
 - Regulatory restraints on rate increases
- **Reasons U.S. Companies Exited the LTC Insurance Market**, Malcolm Cheung
 - Risk Management Practices for LTCI, Jim Berger. SOA LTCI section sponsored research on volatility
- **Overview of the U.S. Regulatory Environment**, Robert Eaton
 - State/federal nature of regulation
 - NAIC
 - Interstate compact
- **U.S. Regulatory Environment from a Regulator's Perspective**, Perry Kupferman discussed the governmental structure and how the insurance department functions.
- **US Actuarial Documents**—Robert Eaton

- Actuarial memorandum
- Annual rate certification
- Rate increase filings
- Annual statutory valuations

- **U.S. LTC Pricing Considerations**, Andrew Dalton
- **Short Term Care products**, Vincent Bodnar
- **U.S. Group Long Term Care Insurance**, Malcom Cheung
- **U.S. LTC Intercompany Study**, Matthew Morton
 - Spoke of his experiences with CLASS (Community Living and Assistance Services and Support) Act.
 - Unsuccessful Federal program found to be actuarially unsound.
- **US National Insurance**, Robert Yee

FRENCH MARKET, SUMMARY OF PRESENTATIONS

As most *Long Term Care News* readers are less familiar with the French market, we have provided a longer summary of these topics.

Long-Term Care and the context of social insurance in France, Vincent Lpez

In 1996, about 50,000 people 60 years and older received benefits from the national

LTCI coverage. In 2011, 1,200,000 beneficiaries received €6 billion (about US\$8 billion) in benefits. Between 2010 and 2050, the number of beneficiaries is expected to more than double. The 2002 introduction of a formal public LTCI program, Allocation Personnalisée d'Autonomie (APA), and a national claim evaluation grid, Autonomie Gérontologie Groupes Iso-Ressources (AGGIR), have helped the private LTCI market. APA is a monthly cash payment to eligible beneficiaries. Eligibility is based on age (beneficiaries must be 60 or older) and the GIR (Groupes Iso-Ressources) level of the AGGIR grid.

National Reforms and Debate in France, Néfissa Sator

The 85 and older population is expected to double in 10 years. In 2010, a debate on LTC for both the elderly and the disabled was initiated by the national government, with participation of the Institut des Actuaire to wrestle with the definition of risk, data, portability, risk monitoring, and Solvency II.

An Overview of the French LTC Market, Géraldine Julliard

In 1985, individual policies were introduced for total dependency (four out of six activities of daily living (ADLs)). In 1995, partial dependency (two out of six ADLs) was added as an option, and LTC was introduced to group insurance. In 2002, AGGIR was added to ADL as a benefit trigger in policies, and LTC direct services were introduced to beneficiaries and close relations ("proches").

As of 2013, 5.7 million people were covered, with 70 percent

covered by individual policies, 30 percent by group contracts, and 35 percent of premium has been paid in claims. The average annual premium is €400, for an average annual benefit of €7,200. There were about 25,000 open claims. BancAssurance accounts for almost half of the premium and is the fastest growing means of marketing LTCI.

In 2013, FFSA (Fédération Française des Sociétés d'Assurances) introduced the label GAD (Garantie Assurance Dépendance) to bring a minimum standard and uniformity to LTCI policies. FFSA plays the role of a combined American Council of Life Insurers (ACLI) & America's Health Insurance Plans (AHIP), and represents 234 insurance companies, or 90 percent of the insurance market, with €190B in premiums, €160B in benefits paid, and €1.9T in assets.

French and European regulation, François Lusson.

LTC risk is difficult to manage due to multiple definitions. Different contracts may use the same terms, but the risks involved are different (hence GAD). LTCI is a small part of most insurers' portfolio and usually noticed only when regulators intervene. European Regulation considers LTCI non-Life, and there is no direction from the French regulatory authority, Autorité de Contrôle Prudentiel. The Social Security code, which regulates most group contracts, also regards LTCI as non-life, and LTC policies are often developed and distributed as a non-life. However, Solvency II's treatment of LTCI as a

life product with level premium raises capital requirements to unsustainable levels.

LTC legal and data, Agnès Canarelli

In September 2014, a LTC specific law was enacted, Adaptation de la société au vieillissement (adaptation of society to its aging population). It addresses the anticipation of the loss of independence, the access to individual technical aid prevention, and the adaptation to the aging of society. It also includes a component on habitat for the elderly. The law provides directives for accompanying the elderly through the loss of autonomy and allows higher monthly aid ceilings for home benefits, but the national program remains based on income. It created respite care benefits for caregivers. For governance of the law, a High Council on Family and Life Cycles was created, strengthening the role of the Caisse Nationale de Solidarité pour l'autonomie (CNSA), which administers the national LTC social insurance program and concentrates on improving the rights and quality of life of the disabled population, irrespective of age.

In France, reliable LTC data is needed for risk modeling, for actual-to-expected, and for Solvency II requirements. Currently companies rely on public surveys from national statistical organizations.

French Individual Market, Jean Pierre Decourcelle

There are 25 insurance companies in the market, with 75 products. 90 percent of policies are stand alone, with the remaining 10 percent being

combo products. 1.6 million individuals are covered by stand-alone policies with lifetime monthly annuity policies. These policies amount to about €500 million in annual premium. The average premium is €400/year for full coverage, and €500 for full & partial coverage. (Author's note: U.S. average premium is \$3,000). The average issue age is 61. Most policies have a waiting period of up to three years (0 for accident, one for non-cognitive, three for cognitive) where premiums are refunded but coverage does not occur. In addition, a three month elimination period applies. Benefits start based on a high ADL trigger of four out of six. The average monthly benefit is €600, 40% of which are paid for partial coverage. Partial coverage starts at a lower threshold (two out of six ADL) but benefits are lower, 50 to 60 percent of full benefits. At the onset of a claim a small lump sum benefit is paid for home modification. Most policies have a reduced paid up provision after the policy has been in force at least eight years. Newer products offer a lump sum benefit instead of a life annuity. Prevention and assistance services are also offered.

French LTC Group Insurance Market, Adeline Gerard

Participation is mostly compulsory. Benefits for employees are the same as those for individual products, with lower monthly annuity amounts. A lump sum benefit is made if a parent is disabled. Facultative contracts are available for retirees and employees leaving the company. Most employers provide tax deductible contributions

while employee contributions may or may not be deductible depending upon which of the three insurance codes regulates the product. One premium level applies for all employees and one for all retirees. Some contracts have indexed benefits. Mandatory group life insurance contracts pay for LTC premium after retirement. Group contracts are often negotiated by various parties, like unions or administrative boards.

LTC for Public Employees Product, Laure Chatel

Four million lives covered, with €200 monthly benefit. No paid up value is available at the end of employment. LTC coverage is a rider to medical expense insurance coverage.

MGEN (Mutuelle Générale de l'Éducation Nationale) Public Teacher Group Policy, Jacqueline Taboulet

Coverage started in 2010, for over 1,000,000 employees of the Department of Education. It also covers 3,000,000 spouses and children and 750,000 retirees. Premium is part of a health, life, disability, credit, and mortgage insurance coverage. A waiting period of three years applies during which coverage is cancelled if a claim occurs. Benefits are a €120 monthly annuity and a €500 lump sum if confined at home after six months.

Overview of the French Unit-Based Group LTCI, Bertrand Boivin-Champeaux and Philippe Berquin

Group LTCI is sold through paritarian insurance institutions, not-for-profit organizations that are co-owned and co-managed by labor and em-

ployer unions and provide insurance coverage to employees for life and disability (or income protection, 47 percent of the 18 million employees in France), health (45 percent), and pension and LTC (8 percent, mostly in Pension). 85 percent of the workforce is covered with income protection plans, 100 percent with health plans, and 60 percent with pension plans. Paritarian insurers are the leader in group health insurance, with €24B in premium, ahead of insurance companies and mutuals. They hold €130B in assets. Group LTCI has been sold since the 90s, sponsored mostly by large companies and some industry-wide plans (e.g., lawyers, fish retailers). LTCI showed very modest growth until 2000s, but some improvement from 2005 to 2010, especially for individual policies. At the end of 2014, there were 5.7M individual and group plan participants for about €600M premium (Yearly Renewable Term and lifetime level premium coverage). Group LTCI market has around three million inforce certificates and €130M in premium. GLTCI market has doubled during 2005-2015. Unit based benefit GLTCI has roughly 100,000 certificates inforce and €12M in premium as of the end of 2014.

HOW IT WORKS:

Accumulation (employment) period: contributions are turned into LTC units. A monthly tax deductible contribution is paid by employer and employee on a 60/40 or 50/50 basis. Contributions are converted into 'LTC units' using a buying rate (e.g., 1€ for 1 LTC unit). Employees have an account where all their

accumulated units are recorded. Price of units is determined annually by age of employee and is shown in a table attached to the LTCI plan. There is no underwriting when employees are automatically enrolled and no waiting period applies. Spouses and other family may be covered after underwriting. If the employee leaves the employer or retires, coverage is fully portable with accumulated units kept by the individual. He or she may continue to pay premiums to purchase supplementary LTC units, without underwriting, if election occurs within a six to twelve months period after the end of employment. This period applies even after retirement. When the former employee stops contributing, he or she will have lifetime coverage, with no reduction in the number of LTC units.

BENEFIT PERIOD: LTC units are turned into benefits.

Plan design and benefits requirements: A guarantee is granted during the lifetime of the employee from the first contribution payment. Benefit = number of LTC units × benefits value of one LTC unit, with a minimum benefit of €300/€500 a month, after a minimum contribution period. Benefits are paid under the condition that a participant is unable to accomplish a number of activities of daily living (three out of four or four out of six ADLs), or if cognitively impaired, or recognized as heavily or partially dependent under the national grid (e.g., GIR 1, GIR 2, or GIR 3). When a person is recognized as partially dependent

under the national grid (GIR 3) or under ADL conditions (2 ADLs), the monthly benefit is reduced by 25 to 50 percent.

Pricing the LTC unit: The LTC unit is priced using prospective mortality relevant for the group of employees insured. It considers the probability of being alive at each year in the future. Variations are considered between full and partial dependency prevalence rates, between ages, and between genders. The sum of actuarial present values of one LTC unit, for each year in the future, for each age and gender, and the premium expenses are added. The accumulated benefit should exceed the minimum amount guaranteed before a certain age, 70 or 75.

Estimating Active Lives Reserves: Use the same basis as for pricing. It is the sum of actuarial present values of accumulated LTC points for each year in the future, adding administrative expenses.

Estimating claims reserves: Mortality tables must be relevant for totally or partially dependent persons. Tables need the probabilities of category transfers, from partial dependence to non-dependence or to total dependence, and from total dependence to partial dependence. Then compute the sum of actuarial present value of benefits for each year in the future, adding administrative expenses.

Premium adjustments: These are made following the analysis of actuarial gains and losses of the plan, depending on the evolution of the insured pool

(requires available data and specific surveys on dependency). Premium adjustments may consist in an increase in the price of LTC units, not necessarily in an increase of contributions. Underestimated reserves for accumulated LTC units can be difficult to correct with only premium adjustments if underestimation is not identified early. Premium adjustments should be as frequent as necessary, without delay. The accumulated number of LTC units can be reduced if the insured has stopped contributing. The maximum rate of reduction has to be in line with premium adjustments. As the duration of liabilities is long (30 to 40 years), Asset Liability Management is very important. It is possible to cap the annual indexation of benefits value of a LTC unit.

Reinsurance in France, Florence Drousseau

Reinsurance has an important role in risk sharing, capital, expertise, and research, as reinsurers have access to worldwide data. LTC is reinsured exclusively on a coinsurance basis. Reliance on reinsurers varies from 100 percent coinsurance (with most LTCI operations such as underwriting and claims) for direct companies with small portfolios, to multiple reinsurance pools with a maximum of 25 percent per reinsurer for the largest portfolios.

| | United States | France |
|------------------------|---|--|
| Benefit Type | expense reimbursement | cash |
| Benefit Options | many | few |
| Assumptions | aggressive | conservative (some use no lapse) |
| Premium Increase | difficult; need state approval | part of contract; no preapproval |
| Benefit Trigger | low; 2 ADL and elimination period | high; 4 ADL and waiting period |
| Benefit Duration | trending to limited | lifetime |
| Claim Evaluation Tools | ADL, cognitive | AGGIR, ADL, cognitive |
| Underwriting Tools | application, phone and face-to-face interviews, medical history | under 70: short questionnaire; 70 & over: long questionnaire, and for larger amounts, medical history and proof of income (less costly than in the US) |

Long Term Care Insurance Data with French reinsurers, Ilan Cohen

Reinsurers have access to large multinational databases. Probability rates are derived for lapse, incidence, mortality, and transition, distinguishing between active and disabled lives mortality, full lapse, and reduced paid-up. Claim amounts are categorized by full, partial, and lump sum benefits. Distribution channels and underwriting generations are also considered. Scarcity of data at low and high ages presents a challenge and requires using public surveys such as PAQUID (Personnes Agées QUID); Social Security data is not accessible to insurance companies. It is difficult to estimate trends in practices such as underwriting and claim eligibility as there is no uniform definition of the LTC risk and there is no LTC-specific credibility theory. A semi-Markov model is used for pricing and reserving.

Underwriting in the United States and France, Nathalie Racco

The SOA Annual Meeting session will be held Monday, October 12, from 10:00 –11:15 a.m. Néfissa Sator and Vincent Lepez, two French participants, and Jim Berger and Robert Eaton, two U.S. participants, will share with us their perspectives. A review of the complete online version of this article is recommended for Annual Meeting session attendees to accelerate understanding of the many similarities and difference of LTCI in the two countries that will be discussed. We hope to see you there. ■

