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Innovative Ideas in LTC Insurance

By Matt Winegar

There are numerous studies and publications estimating the future need of long-term care (LTC) services.[1] The estimates vary, but they all agree that the need is great and the funding mechanisms are lacking. Private LTC insurance is one obvious solution, but traditional standalone LTC insurance sales have declined significantly in recent years.

Luckily, there are several industry and governmental groups brainstorming ideas for new ways to solve this LTC funding gap. This article highlights a few of my favorite ideas in the insurance industry, recently discussed at the Intercompany Long Term Care Insurance (ILTCI) Conference in March.

LIFESTAGE LTC INSURANCE

The state of Minnesota is working hard to get ahead of the LTC funding gap before it becomes a serious problem. A subgroup within Minnesota's Own Your Future[2] advisory panel is championing a new product concept described as a LifeStage insurance product. This product concept acts as term life insurance to age 65, then acts as LTC insurance from age 65 and later, for one level premium payable for life. The goal is to capitalize on the hedging characteristics of life/LTC combination products, but bring the premium lower by isolating the life and LTC coverage based on the insured's "life stage." The state hopes that this product will serve as a viable insurance solution for younger middle-income families. However, there are a number of unknowns regarding the taxation of this potential insurance product, and it is unclear if this product can be approved under current insurance regulation.

INSURANCE LINKED TO WEARABLE TECHNOLOGY

The market for wearable technology (e.g., Fitbit, Apple Watch) is exploding right now, and this new technology brings with it access to an unprecedented level of biometric data. Some life insurance carriers and health plans have already started to tap this new market by linking life or health insurance premiums to the insured's individual fitness level or diet.

Is this a future possibility for LTC insurance? Both cognitive and physical impairments contribute substantially to LTC insurance claims, so perhaps a fitness tracker would need to be combined with a mental health app for this to be viable for LTC insurance. The Society of Actuaries (SOA) LTC Think Tank proposed just such a concept—the Health Longevity App[3]—to promote and track physical, mental, and emotional health. There is already significant research available showing that regular exercise and a healthy diet can have significant positive impacts to a person's health as they age, even suggesting that these may help prevent Alzheimer's and dementia.[4] If these positive health impacts could be quantified into future LTC morbidity savings, LTC insurance could be linked with wearable technology.

REPACKAGING EXISTING LTC INSURANCE

LTC insurance is a complicated product, with a plethora of benefit options and riders available. Some LTC insurance carriers are taking their existing LTC insurance products and repackaging them into a few easy-to-understand product options. This is similar to what the Affordable Care Act (ACA) did to traditional health insurance. Individual health insurance under the ACA must be categorized into four "metallic" packages—bronze, silver, gold, or platinum—based on the level of coverage provided. For LTC insurance, the "bronze" package might be a two-year benefit period with $100 per day benefit and no inflation option, whereas the "platinum" package might be a six-year benefit period with $300 per day benefit and 5 percent compound inflation.

The goal here is to make the product less complex, thereby making it easier to understand and creating a simpler sales process. This concept also has the nice feature of not requiring new product innovation. The carrier can use its existing product design, simply packaged and marketed in a new way.

RETIREMENT ACCOUNTS TO FUND LTC

This idea expands on the tax-deferred aspects of retirements accounts (e.g., 401(k) or IRA) by allowing those retirement accounts to also fund LTC services or insurance premiums prior to retirement. This concept is convenient because retirement planning and LTC planning often go hand-in-hand, so it's a natural combination. Plus, it provides a bucket of tax-favored money that an individual could use to fund a LTC insurance policy, helping to alleviate the impact to the individual's cash flow.

Expanding the intended use of retirement accounts could also lead to new insurance product innovation. What if new LTC insurance designs could be built within the retirement account? For example, an insurance carrier could provide $1-$3 of LTC insurance benefits for every $1 contributed to the LTC portion of retirement savings. Employers could also get involved by matching contributions or self-funding the insurance benefit component.

While a convenient combination, this concept would require federal tax law changes. Further, studies have found year after year that a significant portion of American workers (a third to half, depending on the study) have no personal retirement savings, and an even larger portion has an inadequate amount. This concept would only be beneficial to people who could fund their LTC needs through the account without jeopardizing their retirement.

"UBERFICATION" OF HOME HEALTH CARE SERVICES

As may be obvious from the title, this concept redesigns the home health care provider model after the popular Uber app. While this is not an insurance solution, such a drastic redesign of the provider marketplace could have a real impact on the profitability of existing blocks of LTC insurance. This new service would provide a low-cost means for aspiring home healthcare providers to become appropriately licensed and to "be their own boss." Individuals needing LTC services, or perhaps the children/grandchildren of the individual, could then request a home healthcare provider with just a push of a button on an app. The app acts as a middleman—connecting independent providers with individuals needing care—and as a means of processing payments.

One key to the success of "Uberfication" would be quality control. A rigorous system would need to be in place to ensure the providers are appropriately trained and held accountable for the quality of their work. The SOA LTC Think Tank[3] has proposed that a nonprofit, government-like entity may be best suited to run such a service. Given the already high amount of fraud in the home healthcare industry, the vulnerable nature of individuals needing LTC services, and some of the negative publicity surrounding the ride-hailing app Uber, this may be the most appropriate solution.

However, this idea may not be as far-fetched as it first appears. In fact, it already exists! *Care.com*, traditionally used to connect parents of young children with childcare providers, has a similar service available for senior care. The website can connect the user to home health care agencies or to individual, independent home health care providers. All of the payment processing occurs through the website. Another app, called TaskRabbit, launched recently as a solution to connect people to perform common household tasks, handyman services, or simply run errands. This app is not designed for senior care, but aspects of it could be considered homemaker services covered under existing LTC insurance policies.

The one aspect of "Uberfication" that these apps are missing is the on-demand nature of Uber, but is on-demand home health care really needed? Something seems to be missing, though, as neither app has garnered anything close to the level of popularity of Uber.

A WICKED PROBLEM

The LTC funding gap has been described as "a wicked problem" during several presentations and webcasts this year. I originally thought this might be a good thing ("wicked!"), but the consulting firm Maddock Douglas[5] disagreed, describing "a wicked problem" as something difficult or impossible to solve because of changing or contradicting requirements. Solving one aspect of the problem may actually cause other problems to arise.

This seems like an accurate description of the LTC industry today. Standalone LTC insurance was created as one of the first means to solve the LTC funding gap. However, insurers at the time did not anticipate how future persistency, morbidity, and investment return would unfold on this new product, creating today's environment of large in-force rate increases and few carriers remaining in the market. Now, the product is more stable, but with it has come an increasingly high price tag, contributing to the decline in sales. Insurers are now looking for new product solutions to meet the growing need for LTC services.

The need keeps growing. Existing standalone and combination LTC insurance products create a solution for a portion of the population, but there is still a huge unmet gap. The optimist in me still views this "wicked problem" as an opportunity—there is a huge market available if only we can figure out how to serve it. ■

Matt Winegar, FSA, MAAA, is sr. staff actuary at Thrivent Financial. He can be reached at *matt.winegar@thrivent.com*.

1 The National Clearinghouse for Long-Term Care Information (*http://longtermcare.gov/*) indicates that someone turning age 65 has a 69 percent chance of needing long-term care services for an average of three years. The American Association for Long-Term Care Insurance (*www.aaltci.org*) contains similar statistics. They indicate that someone turning age 65 has a 69 percent chance of needing long-term care services, and 52 percent of individuals turning age 65 will need long-term care services for one year or more. An issue brief from the Center for Retirement Research at Boston College ("Long-Term Care: How Big a Risk?" by Friedberg, et. al) showed that 44 percent of men and 58 percent of women turning age 65 will use nursing home care.

2 Minnesota Own Your Future (*http://www.mn.gov/dhs/ownyourfuture/*) is a state organization to "help Minnesota prepare for the dramatic increases in the number of people who will be age 85 and older by the year 2030. Many of these individuals will need long-term care."

3 View the full report of the SOA's LTC Think Tank October 2015 workshop at *https://soa.org/Files/Sections/2016-03-long-term-care-think-tank.pdf*

4 Alzheimer's Association research center (*http://www.alz.org/research/science/alzheimers_prevention_and_risk.asp*)

5 Maria Ferrante-Schepis, Luisa Uriarte, and Lauren Schwartz of Maddock Douglas (*http://maddockdouglas.com*) have discussed this during the March 9, 2016 SOA LTC Think Tank webcast and during the March 2016 ILTCI Conference.