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$100 Billion and Growing: Long-Term Care Reserves in 2013

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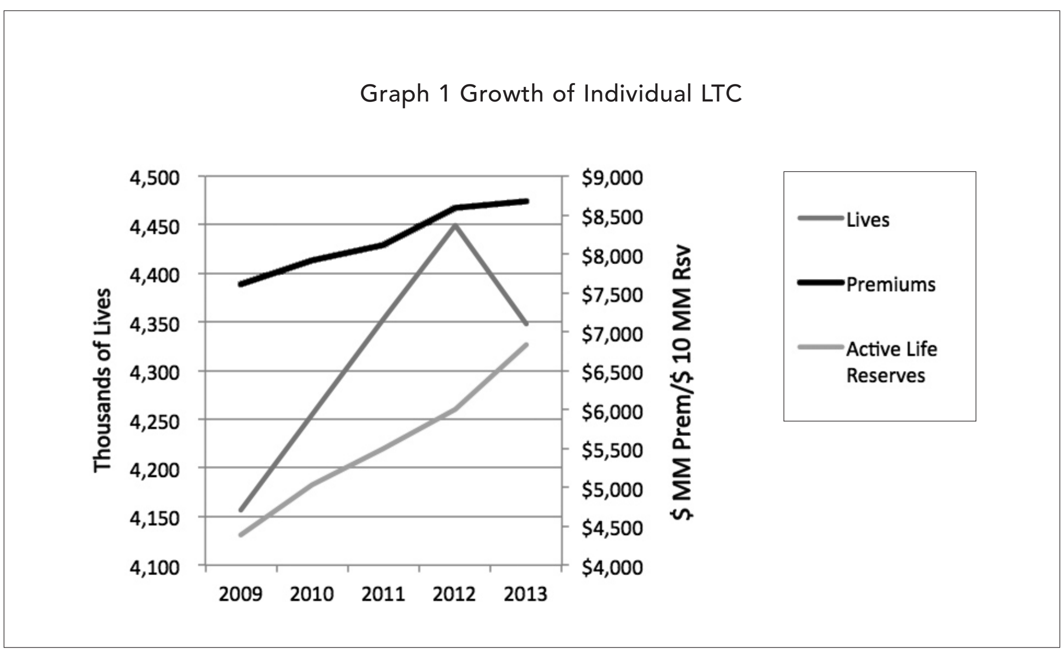
INTRODUCTION

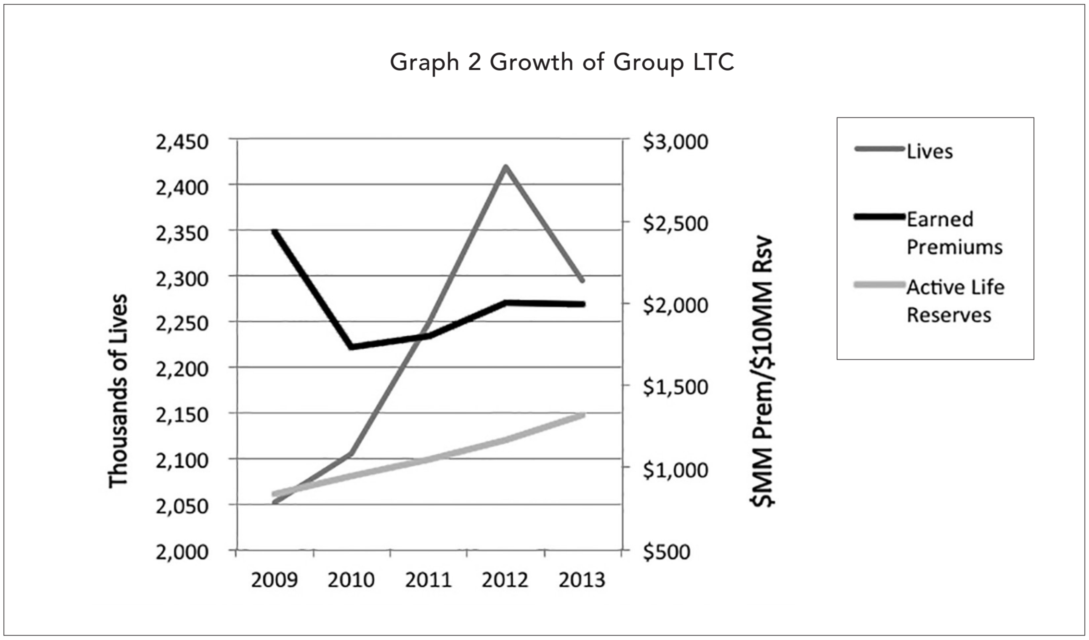
The recent long-term care (LTC) reinsurance transaction between CNO and Beechwood Re may signal the start of a broader market for buyers and sellers of long-term care blocks. One of the major themes of the LTC market over the last 15 years has been the significant number of departures of life insurers (and a few casualty insurers) from this product line while the previous 20 years had shown a large number of entrants to the market. In this article, we provide an overview of market development over the last five years and take a look at the current disposition of LTC reserve blocks between active and inactive insurers. Note that for the sake of simplicity, we have limited our analysis to blue book life insurers only. There are only two meaningful yellow book LTC insurers and total LTC premiums for orange book insurers are minimal.

INDUSTRY DEVELOPMENT: LIVES, PREMIUM AND ALR'S – 2009 THRU 2013

LTC industry statistics

2012 marked the recent high water mark in the number of individual insureds covered by LTC insurers (based on the A&H Experience Exhibit). This probably speaks volumes about the health of the LTC market. However, while growth in covered lives reversed itself in 2013, growth in premium earned per life and more rapid growth in ALR per life has continued. The graphs below show growth trends for individual and group LTC separately. It is not surprising that both earned premiums (and premium per life) and ALR have been rising considerably faster than covered lives for individual LTC. Note that earned premium and lives come from the A&H Experience Exhibit while ALR's come from the LTC Experience Report.





Development of group lives, earned premium and ALR's has been somewhat more inconsistent as might be expected but does show the same peak in covered lives in 2012. Graph 2 shows the development of group LTC.

Estimates for total LTC reserves

The LTC Experience Report provides a reasonable basis to estimate total ALRs for all LTC insurers. DLRs, on the other hand, are not as clearly separated out. To estimate DLRs, we have analyzed Exhibit 6 Guaranteed Renewable DLRs reported for each insurer with sizable ALRs. GR DLRs as a percent of total GR reserves vary from 20 percent for the two largest LTC insurers up to 34 percent for Senior Health and as low as 9 percent for Met, Pru and NML. Met and Pru presumably include a lot of non-LTC short-tail business in their GR blocks. NML suggests a different dynamic. Across the top 25 GR insurers (excluding AFLAC), DLRs aver-

TABLE 1 ESTIMATED TOTAL LTCI RESERVES

Year -->	2009	2010	2011	2012	2013
Reported Individual LTC Policy Reserves	43,889	50,366	54,986	60,042	68,274
Estimated Individual LTC Claim Reserves	9,634	11,056	12,070	13,180	14,987
Reported Group LTC Policy Reserves	8,374	9,506	10,525	11,690	13,193
Estimated Group LTC Claim Reserves	630	715	792	880	993
Reported Life/LTC combo Reserves	648	1,505	6,238	7,647	9,053
Estimated Total LTC Reserves	63,175	73,148	84,611	93,438	106,499

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age 18 percent of total GR reserves. Based on this analysis, our estimates by year for ALRs and DLRs for all LTC insurers are shown in Table 1 (reserves in $millions).

Notes on reporting anomalies

Note that we are relying on information reported in the LTC Experience Report Form 2. As we reviewed this information, we concluded that it provides a reasonable overview of industry totals and that there are apparently some significant market participants who either have not filed this report or have reported zero amounts.

DEVELOPMENT OF LTC COMBOS – 2011 THRU 2013

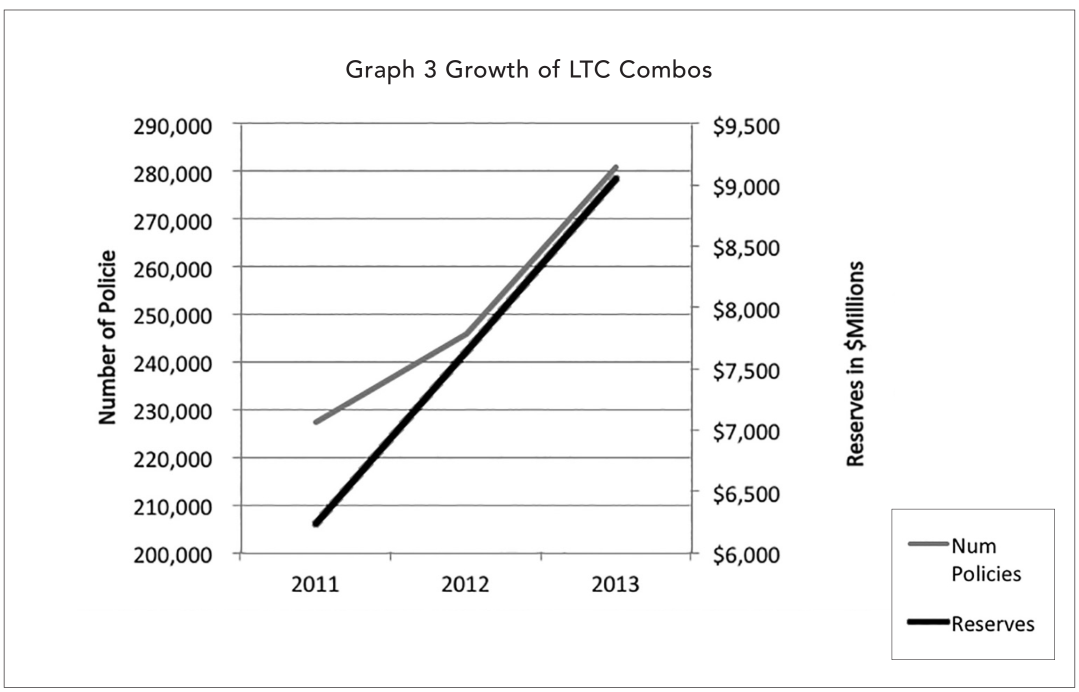
Another important side of the LTC story has been the rise of life/LTC combination products. LTC Experience Reporting Form 4 provides some window into the rapid growth of this market. As with the stand-alone market, there are significant reporting anomalies. Notably, chronic illness products are not reported and it appears that at least some notable insurers in the LTC combo market have not reported on their business. However, Graph 3 provides a picture of the rapid growth in lives and reserves for this market segment in the last three years (data from earlier years is inconsistent).

DISPOSITION OF ALRS BY ACTIVE VS. INACTIVE INSURERS

It is very easy to list off the top of one's head 10, 20, or more insurers who have been large players in the LTC market within the last 15 years and have stopped selling LTC—either group or individual or both. There are at least two ways to identify companies who have exited the market. One is the database maintained by the California Department of insurance. The other way is to identify insurers who have shown a decrease in the number of lives covered over the last few years. As we have performed this analysis and classified each insurer (125 reported either individual or group earned premium in the A&H Experience Exhibit), we noted a number of insurers with apparent anomalies—e.g., insurers who we believe are inactive but saw meaningful growth in covered lives or vice versa. However, Table 2 shows our best estimate of earned premiums and ALRs for each insurer that we could reasonably classify. Note that our counts are based on legal reporting entities so any given insurer (e.g., Genworth or Hancock) may be represented by more than one entity.

REINSURANCE BLOCKS

Six traditional reinsurers have been active in the LTC reinsurance market at some point. They are



ERC, Gen Re, Hannover, Munich Re, RGA and Swiss Re. In total, their LTC reserves represent around 9 percent of the total reserves that we estimate for the entire LTC market. Table 3 shows LTC treaties, premiums and reserves reported in Schedule S in 2013 for each of these reinsurers.

Note once again that there are some reporting anomalies and we have used estimates. Four of the six reinsurers use the NAIC reinsurance type "LTC/I" to describe LTC treaties while two do not use that type. Note that we found no "LTC/G" treaties among this group of reinsurers. It is also notable that it currently appears that only one of the six is still active in the LTC reinsurance market.

CONCLUSIONS

Viewed from a broad industry perspective, the LTC insurance product has had mixed measures of success and challenge over the last 15 to 20 years. However, viewed from the narrow perspective of a potential reinsurer or purchaser of LTC reserves, the size of a potential market is very substantial. Realistically, until new money earned rates are significantly higher, the number of economically feasible transactions will be quite limited. However, there certainly is enough potential business out there to warrant continued attention. ■

TABLE 2 ACTIVE VERSUS CLOSED LTCI BLOCKS

Status	Individual			Group		
	#	2013 Earned Premium ($000's)	2013 ALRs ($000's)	#	2013 Earned Premium ($000's)	2013 ALRs ($000's)
Active	24	5,830,838	34,746,332	5	1,124,170	4,221,399
Inactive	66	2,816,032	33,370,880	21	874,072	8,080,776
Never Material	35	31,309	107,391	99	954	3,659

TABLE 3 REINSURED LTCI

Reinsurer	Treaties	Premiums	Reserves
ERC	14	$ 382,460,733	$ 6,581,009,136
Gen Re	29	$ 72,927,491	$ 661,851,336
Hannover	7	$ 22,550,083	$ 216,095,843
Munich	21	$ 217,875,156	$ 1,134,349,790
RGA	17	$ 377,577,019	$ 431,621,557
Swiss	10	$ 7,946,810	$ 81,378,236
Totals	98	$ 1,081,337,292	$ 9,106,305,898