SOCIETY OF ACTUARIES
LONG TERM CARE INSURANCE SECTION

A Middle-Market Senior Care Solution

By Bruce Stahl and Winona Berdine

Would you like to have an insurance product in your company's lineup that provides all of the following?

- Reaches the middle market,
- provides security to generations of family members,
- satisfies real customer financial needs and provides them with peace of mind,
- minimizes risk in the morbidity tail,
- reduces asset and interest rate risk, and
- reduces concerns about pandemic risk in facilities.

Many recent innovations in senior care insurance—particularly in long-term care products—have aimed to enhance its fundamental value proposition but have not really resolved the middle market affordability gap. Some innovations designed as product differentiators, such as cash values or nonforfeiture benefits, have increased the cost, making them unaffordable to most middle-market consumers. Even traditional combination products offered on a multi-pay basis can be expensive for the middle market.

The various tax incentives proposed in recent years that have targeted LTCI's high premiums might help to some degree, but they would not really alter the product's underlying risk or middle-market affordability.

Perhaps it's time to consider a living benefits solution that would cover a loved one's long-term care needs and services on a decreasing term basis. Such a product would be intended for purchase by a working relative (generally an adult child) prior to his or her retirement. The policy would fund the potential care needs of someone in whom the purchaser has an insurable interest—a parent, an in-law, or even a spouse—while the policyowner continues to work, and would end when the policyowner retires.

A new product framework we are calling caregiver insurance is one that can respond to this need. Consider a middle-market individual—usually a son or daughter—who is aware they will need to provide care for one or both parents should the parents need help with activities of daily living or supervision due to cognitive impairment. The individual might be unable to physically provide the care for several reasons—either due to living and working at a distant geographic location or due to their job lacking the flexibility to let them take time off work on a regular basis or on short notice. Discussing the matter, the family agrees that once the son or daughter retires, he or she can care for the parents. However, until then, the adult child still needs to earn a living and save for their own retirement needs.

A caregiver insurance policy, that would terminate at the time of the policyowner's choosing (such as their planned retirement), was conceived of and designed as a solution for this need. It covers expenses for the care of a loved one (spouse, parent or in-law) if their health becomes impaired due to aging, accident, illness, or a chronic condition. The coverage, in the form of a monthly payout, would be activated by the policyowner once the parent was diagnosed with covered and triggering impairments, and would stay in place during the selected term—generally the policyowner's expected working years. This would minimize the financial and career impact of caregiving on the policyowner while ensuring proper care for his or her loved one.

The decreasing term nature of the product refers to the amount of time the policy would pay benefits. The term of the policy would be selected at time of purchase, and monthly payments would be available until the end of the term. Payments are oriented primarily toward home care, which could alleviate worries about pandemic-type risks, but can cover facility care as well, should the need be severe.

From the insurers' perspective, the high premium rate increases in LTC over the past several years have been due to concerns about high claims incidence and low mortality at high attained ages. These tail risks can also be avoided by the term nature of this type of insurance. Also, as the benefit period decreases, active life reserves should be comparatively small. The increasing age curve will be offset to some degree by the fact that the policy term is finite and the benefit maximum is reducing.

Although the recipients of the care would be fully underwritten using today's LTCI standards, be aware that the caregiver insurance design is not considered to be LTCI by state regulatory definitions, as it has some fundamental differences from the standard product:

- **Underwriting is on the parent** (or parents) rather than the policyowner. The parent(s) would need to participate in the application process, and allow the insurer to access their medical records. Furthermore, the parent(s) and the policyowner would need to state that they were not coerced into providing information or being covered.
- **The Genetic Information Nondiscrimination Act** (GINA) exclusion is not guaranteed, as this insurance is not considered LTCI. Since medical conditions with a genetic component generally manifest by age 65, this concern may be moot if the covered parties are at least age 65 when the policy is underwritten and issued.
- **No Waiver of Premium or Extension of Benefits.** Because policyholders are expected to be earning an income while the parent is receiving benefits, premium waivers and benefit extensions, which are standard on LTCI policies, are not (and should not be) built in.

While discussing this concept with insurers, we identified several areas where the concept can be enhanced, such as allowing multiple policyowners such as siblings, who share a common insurable interest in the well-being of their parents—the policy's care recipient(s).

This policy is designed to be available to buyers both at worksites and on an individual basis, and has the potential to benefit customers, distributors, carriers, and even the state.

- Customers have access to affordable LTC-style coverage, with premiums intended for when they are earning an income and can pay them. This is generally also when policyowners can least afford to lose time at work, and during the years when they most need to save for their own retirement(s).
- Distributors can offer an affordable living benefits product that can meet a real middle-market need.
- Insurers can provide a lower-risk and less asset-intensive product than standard or combination LTC.
- States can benefit as well through the potential for significantly lower Medicaid costs for two generations, by covering expenses for people who might otherwise require Medicaid assistance and enabling the second generation to prepare for their own future LTC needs.

With people living longer, the caregiver insurance policy design can help finance care in an affordable manner for all parties involved, especially for those in the middle market.

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