Session 89 PD, Future of the Long-Term Care Insurance Industry

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The Future of the LTC Industry
Products and Marketing

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Agenda

- LTC Market Environment
- Policyholder Needs
- Marketing Approaches and Challenges
- Innovation in the LTC Industry
Market Overview
LTC Market Environment
Current Market Overview

▶ Significant Market Exits from Direct Writers
  ▪ Interest Rates, Persistency and Morbidity
  ▪ Regulations

▶ Numbers of Policies Sold Have Been Relatively Flat/Declining Since 2005

▶ Significant Premium Rate Increases Passed on to Policyholders
  ▪ States Are Not Always Approving Actuarially Justified Amounts Due to Political Pressure

▶ As of 2010, 55% of Covered Lives Held in Closed Blocks (Only 25% in 2009)

▶ Attention Being Paid to Re-vitalize the Market
  ▪ Stand-Alone LTC vs. Hybrid LTC/Life Products
LTC Market Environment
Individual Stand-Alone LTC Market

- Roughly 5-6 Million Policies Inforce
- Total Annualized Inforce Premium over $8 Billion
- Accounts for 58% of Market Today – Down from 75% in 2000
- Roughly One Dozen Companies Still Significantly Active
- Annual Sales (Policies) in 2010 were 65% Lower than in 2000
- Between 2009 and 2010 Average Annual Growth was 10%; has slowed again since 2010 and declined in 2013
LTC Market Environment
Group Stand-Alone LTC Market

- Between 2.2 and 2.6 Million Covered Lives
- Total Premium is Greater than $2 Billion
- Growth Rate from 2005 to 2010 is roughly 5% Annually
- Slightly More than 12,000 Employers and Other Groups Sponsor Coverage (Including Federal and Many State Governments)
- Less than 10 Direct Writers Actively Selling in the Group Market
LTC Market Environment
Individual Stand-Alone LTC Sales

Source – LTCG Health Experience Reports and Analysis
LTC Market Environment
Recent Sales Trends

<table>
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<th>Individual LTC Industry</th>
<th>$MM</th>
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<td>2009</td>
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<th>Life - Linked Benefit Products</th>
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Source – LIMRA
Policyholder Needs
Policyholder Needs
A growing consumer market - 65 plus population growth

Estimated adult US population, age 65 plus¹

1) http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk
Policyholder Needs
A growing consumer market - Most adults over 64 will need LTC

Population, 65 plus that will need LTC\(^1\) in %

- Will need LTC 68%
- Will not need LTC 32%

Who needs long-term care?
Individuals who require long-term care face cognitive impairment or inability to perform at least two basic activities of daily living, which include:

- Bathing and showering
- Dressing
- Eating
- Functional mobility
- Personal hygiene
- Toilet hygiene

1) [http://longtermcare.gov/the-basics/who-needs-care/](http://longtermcare.gov/the-basics/who-needs-care/)
Policyholder Needs
A growing market - Adults 65 plus are inadequately covered

U.S. Population, age 65 plus\(^1\) in %

- Over 64 (45 million) 14%
- Under 65 86%

U.S. population with LTC coverage\(^1\) in %

- With LTC protection 3%
- Without LTC protection 97%

1) http://www.cbo.gov/publication/44363
Policyholder Needs
Increasing LTC costs

The cost of a private nursing home room\(^1\) in USD

<table>
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<tr>
<th>Year</th>
<th>Median daily rate</th>
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<tr>
<td>2008</td>
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<td>2012</td>
<td>$248</td>
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LTC costs increase
The median rate of a private room in a nursing home increased 57% from $191 in 2008 to $248 in 2012\(^1\).

- A review of annual LTC costs (2012, USD):
  - Semi-private nursing: $81,030\(^1\)
  - Private nursing: $90,520\(^1\)
  - Assisted living community: $42,600\(^1\)
  - Home health aide: $21,840\(^1\)
  - Homemaker: $20,080\(^1\)
  - Adult day services: $18,200\(^1\)

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Policyholder Needs
Increasing LTC costs

Annual LTC costs in USD

LTC costs are on the rise

- Between 2009 and 2012 LTC costs increased:
  - Assisted living community costs increased 12%, from $35,520 to $39,888
  - Semi-private nursing home room costs increased 11%, from $67,525 to $75,190
  - Private nursing home room costs increased 13%, from $74,825 to $84,315

Marketing Approaches and Challenges
Marketing Approaches and Challenges
Typical Needs Based Approach

► Understanding the Risks
  ▪ Financial impact
  ▪ Emotional and physical burden
  ▪ Consequences of not having a plan

► The Planning Process
  ▪ Waiting too long to address the issue
  ▪ Insuring one spouse and not the other
  ▪ Assuming costs can be covered out of pocket

► Designing a Policy
  ▪ Benefit amounts and period
  ▪ Inflation protection
  ▪ Elimination period
Marketing Approaches and Challenges

Typical Needs Based Approach

Challenges

- Complexity of products

- Reputation of LTC products
  - “High” LTCI premiums for new buyers
  - Significant rate increases for existing customers
  - Decrease in carrier benefit offerings
  - Fewer product options available in the market

- Emotions related to sale
Innovation in the LTC Industry
Innovation in the LTC Industry
Innovation Triggers

**Innovation trigger #1:**
A decline in stand-alone LTCI sales
- Premium increases
- Negative consumer sentiment towards “use it or lose it products”
- Insurers exiting the market due to an inability to profit on stand-alone LTCI products

**Innovation trigger #2:**
A growing consumer market
- Aging baby boomers
- High probability that adults 65 plus will need LTC
- Less than 3% of the US population has LTCI coverage
- Adults age 65 plus make up over 14% of the population

**Innovation trigger #3:**
Increasing LTC costs
- Increasing LTC costs for:
  - Nursing homes
  - Home health care
  - Assisted living facilities
Innovation in the LTC Industry
Balance of Value and Risk

Insurance Company
- Annual and total profitability
- Effectively manage overall risk profile
- Grow both top and bottom lines of business

Sales and Distribution
- Fair commission structure and level
- Multiple tools to provide protection

Policy Owner
- “Value” of purchase
- Product stability
- Personal financial stability
Innovation in the LTC Industry
New Product Concepts

- Short Term Care
- Short Term Robust Benefits
- Catastrophic LTC Care Plan
- Tax Favored Savings Accounts
- Life/Annuity LTC Hybrid Products
Innovation in the LTC Industry

Short Term Care

- Any product which has benefits similar to LTC, designed to pay for nursing home, assisting living facility, and/or home health care, but where the period of payment is too short to qualify as LTC (i.e., generally less than one year).

- Designed to cover conditions of a short-term nature (i.e., a “recovery” benefit)

- Designed to fill in the gaps of a LTC policy with longer elimination period or to fill in gaps of major medical policy

- Designed for person who can’t afford LTC coverage but might want help for some portion of the care

- Designed to give family time to cover care, while making decisions for more permanent care
Innovation in the LTC Industry
Short Term Robust Benefits

- Lifetime benefits are somewhat limited

- Periodic benefit would have robust benefits

- Many LTC situations are resolved within 3 year time frame
Innovation in the LTC Industry
Catastrophic LTC Care Plan

► Provide coverage for long term catastrophic situations generally lasting more than 3 years:
  ▪ Alzheimer’s disease
  ▪ Stroke
  ▪ Arthritis

► To maintain affordability, “3 year” deductible period
Innovation in the LTC Industry
Tax Favored Savings Accounts

- Savings account similar to HSA

- Purpose would be directly provide funding for family’s LTC funding:
  - LTC costs
  - LTC protection vehicles
Products market away from the most common objection to stand-alone LTC products: it is a “use it or lose it” sale:

- Provides integrated Death Benefit and Cash Value protection features
- Typically includes a Return of Premium Feature

Products are generally marketed to those who have decided to self-fund their LTC needs

- If the client does not own stand-alone LTC, they are self-funding

Products can help client leverage the assets they are allocating to LTC protection need

- Linked Benefit Rider**
  - Average Premium: $81,134
  - Average Face Amount: $145,387
  - Potential Additional EOB Coverage: $290,774
  - Total Potential Coverage: $436,161 (~5.4x Leverage)
  - Provides benefits over a minimum 6-year period

Source: LIMRA Individual Life Combination Products – 2013 Annual Review
** - Linked Benefit Averages based on Single Premium Products
Innovation in the LTC Industry
Life / Annuity Hybrid Products

Monthly LTC Benefit: $6,058
Total Leverage: 5.4x

Leverage Impact for LTC Combo Products

- $81,134 Premium
- $145,387 Total Acceleration LTCI Benefit or Tax-Free Face Amount
- $72,694 Accelerated Face Amount Year 1
- $72,694 Accelerated Face Amount Year 2
- $290,774 (2x Face Amt) Total 4 Yr. LTCI Extension Benefit
- $72,694 Extension of Benefit Year 3
- $72,694 Extension of Benefit Year 4
- $72,694 Extension of Benefit Year 5
- $72,694 Extension of Benefit Year 6
Contact Information

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Questions?
The Future of the LTC Insurance Industry

Regulatory and Legislative Reform Perspective

Al Schmitz
The Future of LTCI – Regulation and Legislation

• Agenda
  • LTC Insurance Regulation
    • New Model Regulation
    • Future Prognosis
  • LTC Reform – Future Legislation
    • After CLASS
    • LTC Commission
    • Future Proposals
New Model Regulation and Bulletin

• New Model Regulation
  • Adopted August 2014
  • Contains new provisions for new business and rate increases

• New Bulletin for rate increases on pre-rate stability policies
  • Requirements with some provisions from post-rate stability plans
New Model Regulation
Initial Filing Requirements

- **2001 Rate Stability Regulations**
  - A statement that the initial premium rate schedule is sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated;

- **2014 Rate Stability Regulations (Additions)**
  - A statement that the premiums contain at least the minimum margin for moderately adverse experience defined in (i) or the specification of and justification for a lower margin as required by (ii).

  (i) and (ii) next slide.
New Model Regulation
Initial Filing Requirements

- A statement that the premiums contain at least the minimum margin for moderately adverse experience defined in (i) or the specification of and justification for a lower margin as required by (ii).

  (i) A composite margin shall not be less than 10% of lifetime claims.

  (ii) A composite margin that is less than 10% may be justified in uncommon circumstances. The proposed amount, full justification of the proposed amount and methods to monitor developing experience that would be the basis for withdrawal of approval for such lower margins must be submitted.

  (iii) Combination Products – Potentially lower margin

  (iv) Credibility of experience may lead to greater margins
New Model Regulation
Initial Filing Requirements

- **2001 Rate Stability Regulations**
- **Initial filing Actuarial Memorandum**
  - Requirements in “Loss Ratio” Section.
    - Basis of rates
    - Description of reserves
    - Summary of Benefits
    - Description and table of actuarial assumptions
    - Average Premium
    - Underwriting

- **2014 Rate Stability Regulations (Additions)**
  - **Actuarial Memorandum**
    - Policy Design and Coverage
    - Underwriting and Claims Adjudication
    - “A complete description of pricing assumptions”
    - Sources and levels of margins
    - Demonstration of minimum margin
New Model Regulation Reporting Requirements

- **2001 Rate Stability Regulations**
  - Annual reporting
    - Lapse and replacement

- **2014 Rate Stability Regulations (Additions)**
  - Annual Rate Certification
    - Sufficiency of current schedule
    - If not sufficient, plan must be filed within 60 days to re-establish

- Actuarial Memorandum to Support Certification
  - Data sources
  - Experience assumptions and relationship to pricing assumptions
  - Credibility
  - Explanation of analysis and testing

- Due May 1st of each year
Bulletin on Rate Increase Filing Requirements

- Pre-Rate Stability Policies
- Actuarial Assumptions for Establishing Rate Increase Requests:
  - Department to review reasonableness
- Approval of Rate Increase
  - Single rate increase – no future increases for three years
  - Series of increases – three year monitoring
- Requirement of Contingent Benefit on Lapse
  - 20th policy duration – without regard to trigger percentages
- Policyholder Notification Requirements
- Loss Ratio Requirements
  - 60% on initial
  - 80% on increase (75% for group)
New Model Regulation
Premium Increases

• 2001 Rate Stability Regulations

• Certification: *If the requested premium rate schedule increase is implemented and the underlying assumptions, which reflect moderately adverse conditions, are realized, no further premium rate schedule increases are anticipated;*

• 2014 Rate Stability Regulations (Additions)

• *The insurer may request a premium rate schedule increase less than what is required under this section and the commissioner may approve such premium rate schedule increase, without submission of the certification in Subparagraph (a) of this paragraph, if the actuarial memorandum discloses the premium rate schedule increase necessary to make the certification required under Subparagraph (a)*
New Model Regulation
Premium Increases

• 2001 Rate Stability Regulations

• 2014 Rate Stability Regulations (Additions)
  • Actuarial Memorandum with
    • Expected Claims
    • Projections
    • Other Assumptions

• If rate greater than 200% of original rate – projections filed every five years

• Commissioner can require premium adjustments if projections do not materialize
Future Regulations

• Insurance Regulation Focus Depends on Point of View
  • Regulator Focus
    • Company Solvency
    • Rate Stability
  • Industry Focus
    • Financial Viability
      – Sales, Rate Stability
  • Consumer Focus
    • Affordability
    • Rate Stability
  • Policy Maker Focus
    • People covered
    • Affordability
• Finding the Balance
LTC Reform – Future Legislation

• Need for Reform Driven by:
  • Societal and Individual Preparation LTC
  • Low LTC Insurance Penetration
  • Demographic Wave
  • High Cost of Services
  • Quality of Care Improvement
  • Medicaid Budgets
LTC Reform

• After CLASS
  • Community Living Assistance and Support Services
    • Part of Affordable Care Act
    • Determined Unworkable in 2012 and repealed in 2013
  • Voluntary Guaranteed Issue LTC
    • Determined not to be viable
    • Lifetime Cash Benefits
    • Not enough underwriting safeguards
• Private LTC Insurance Potential Impact Response
LTC Commission

• Created January 2013 with Repeal of CLASS

• Given six months to produce solution to LTC in the US

• Focused on three areas
  • Financing
  • Service Delivery
  • Workforce Challenges
LTC Commission

• Results

• Consensus on
  • Service Delivery
  • Workforce Challenges

• Consensus Not Reached on Financing
  • Majority report (9 members) – Strengthen options for private financing or social insurance
  • Minority report (5 members) – social insurance
LTC Reform – Future Legislation

• 2015 White House Conference on Aging
  • Last one was 2005
  • Goals and Challenges of Conference
• Broad Agenda
  • Retirement security
  • Long-term services and supports
  • Healthy aging
  • Elder abuse
LTC – Reform Future Legislation

• Various Groups Looking into Reform Options
  • LTC Financing Collaborative, Bi-Partisan Policy Center, Leading Age, Scan Foundation, AARP, Others

• Dimensions
  • Mandatory / Voluntary
  • Public / Private
  • Front End / Back End
  • Elimination Period / Benefit Period
  • Cash / Reimbursement
  • Taxes / Premiums
LTC – Reform Future Legislation

• Sample Proposal
  • Voluntary program upon attaining age 65
  • Small front end benefit
  • Voluntary program with subsidization
  • *Subsidy from accumulation of small additional payroll tax*
  • Focus on elderly
  • Encourage personal responsibility
  • Pros and Cons
LTC – Reform Future Legislation

Summary - Going Forward

• Increased Debate and Discussion
• Modeling Various Options
  • Key Actuarial Role
  • Failure of Class
• Development of New Legislation
• Timing of Policy Proposals – Importance for success
LTC – Reform Future Legislation

Impact of Potential Reforms to the Private LTC Insurance Industry

• Many felt CLASS would have helped
• Depends on variation of Public / Private roles in any reform
• **Prediction – Reform will dramatically drive growth in the private market**
  • Unlikely comprehensive public social insurance
  • Small public program may drive a more vibrant private market
  • Any public program may still be driven by private companies similar to Medicare Advantage.