

**2018 SOA Life & Annuity Symposium**

May 7–8, 2018

Baltimore, MD



**SOCIETY OF  
ACTUARIES®**

## Session 24 PD, Chronic Illness: A Response to Failure

### **Moderator:**

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# SOCIETY OF ACTUARIES

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- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do** alert SOA staff and/or legal counsel to any concerning discussions
- **Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

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# Middle Market is Not Middle Ground



“Contrariwise,’ continued Tweedledee, ‘If it was so, it might be; and if it were so, it would be; but as it isn’t, it ain’t. That’s logic.”

# We missed the whole side of the Barn!

- Virtually all our initial assumptions about the nature of long term care risk have proven to be glaringly incorrect .
- In the beginning we thought it was just a Medicare look alike common everyday individual health product. We were wrong on every account.
- We thought it would lapse generously and predictably like all it's former genetic relatives. Instead it became the most "beloved" A&H product of all time.
- We measured the size of the problem as we always did through the myopic vision of catastrophic risk. The truth is the great and vast majority of LTC claims are financially manageable.
- The most basic question ; "How much is enough ?" simply backfired and continues to isolate solutions to only the most affluent members of our society.
- The real question should have been ;" How little is enough to preserve private pay status ?" The question should have been phrased and the solution styled to protect our most egalitarian principles of freedom of choice and dignity of care !
- Insurance funded family caregivers and assisted living facilities with dog walking services have nothing to do with insurance .

# Our Future Must Be Defined By Our Failures!

- 8 Million have bought some form of Chronic Illness Insurance.
- 54 Million did not !
- 83 % of all paid claims would have been covered by “ Access “to \$100,000,
- Very few of the total benefit dollars sold have been used for claims !
- Sales have been basically FLAT for 15 years with about 500,000 folks purchasing some form of protection each year.
- Onerous rate increases have contaminated the entire sales environment.
- As new premiums rise we have created our own inverse rate sales spiral rapidly reducing the ranks of those who can afford to leverage the “entire risk”

# Middle Class Products Inherit a Vacuum!

- Two new Market directions fueled by past failures lead to better Middle Class access to sales: 1) “Point of Need “ leads to the Adult Children 2) Rigid stand alone Underwriting leads to mild Impaired Risk
- Creative Combo products can now directly addresses the greatest consumer obstacles to past sales:
  1. “ Use it or lose it” is gone as someone will always get something with Combo products
  2. Premium is cut dramatically as the purpose of the sale changes from replacing the risk with insurance to merely adding supplemental coverage to remain a private pay patient
  3. Premium and benefit levels can be defined and guaranteed.
  4. Potential “Universal Acceptance” allows the Group/Multi-Life market to return.

# Maybe we have been looking through the wrong end of the telescope!

- In our quest to cover catastrophic risk for the Affluent. Perhaps we don't need bigger and broader but smaller and more customized to the exact nature of the risk.
- The goal remains the same. How to I do all in my power to help someone remain a Private Pay patient ?
- BUT there must be two distinct paths : 1) For the 5 million Mass Affluent households to continue to replace the risk with some form of comprehensive chronic illness risk mitigation. 2) For the 34 million Households in the Middle Class how to we help fill the "GAP" in monthly income to maintain the desired quality of care.

## Medicaid was underfunded by 7 Billion in 2017

- May I humbly suggest that NO ONE now or in the future wants to be in a Semi-Private room.
- Care Planning must include what happens IF someone runs out of adequate funding.

# Insurance Dollars Never Stand Alone!

Basic Services at an ALF about \$4,000 a month. HHC about \$25 an hour.

Now the Adult Children have gathered around the financial and emotional firestorm , hopefully selected a Power of Attorney and started to take inventory on available Monthly care funding :

- Beginning with SSI- Average payments of \$1,360. Maximum currently available -\$3,538 with many receiving in excess of \$2,000 per month.
- American Savings at age 75+ median available \$35,000 but when you add in home equity it's \$213,000.
- Median Home equity alone age 75+ is \$130,000- Reverse Mortgage becomes a possibility
- VA Aid and Assistance Veteran Benefits including spouses-\$2,160
- Medically Underwritten SPIA's . Can leverage remaining assets or cap liabilities for the Heirs.
- Secondary Market sales are growing steadily converting dormant or no longer needed death benefits into monthly income for care. Currently someone already defined as disabled could receive 30-40% of the face amount and up to 10 times remaining cash values.

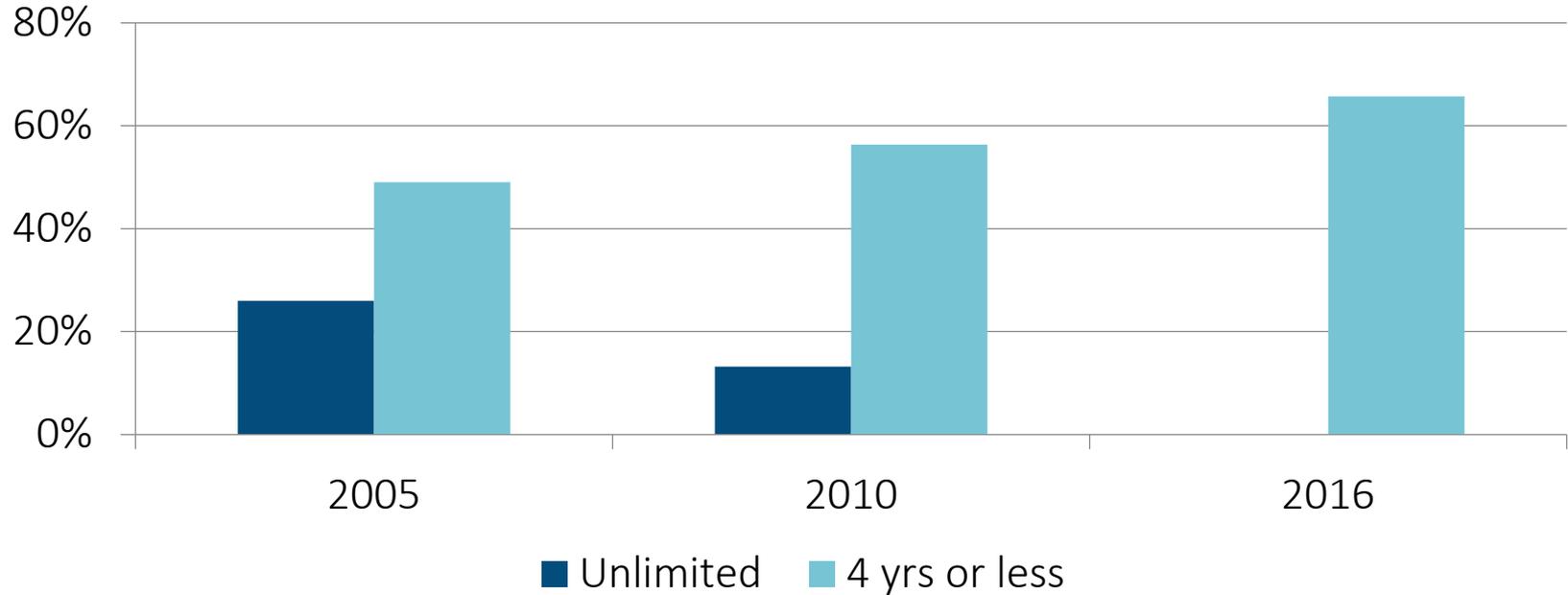
# How much coverage is needed



## Learning from long-term care

- Long-term care products have evolved over time
- Different companies look at different markets
- However, at time of claim, choices continue to be:
  - Nursing homes;
  - Assisted living facilities; or
  - Care delivered at home

## How much LTC coverage was purchased

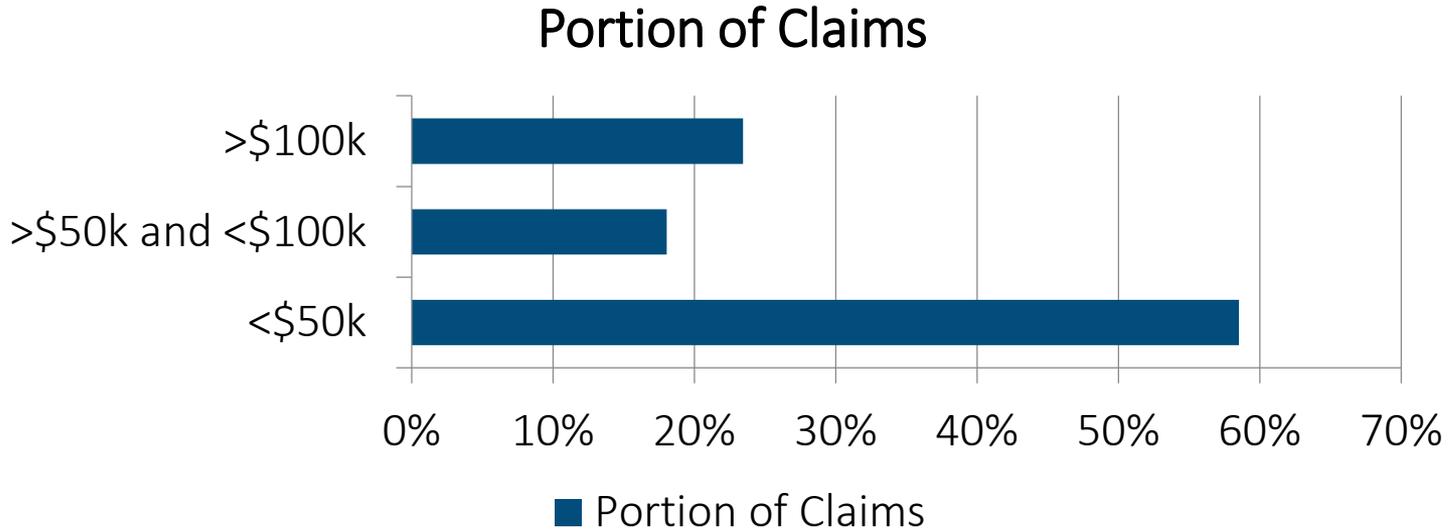


## How much LTC coverage is purchased today?

- Average issue age 55.8
- Average benefit period is 4 years
- Average monthly benefit \$4,800
  
- Standalone LTC is already moving to less coverage

# Long Term Care Claim Size

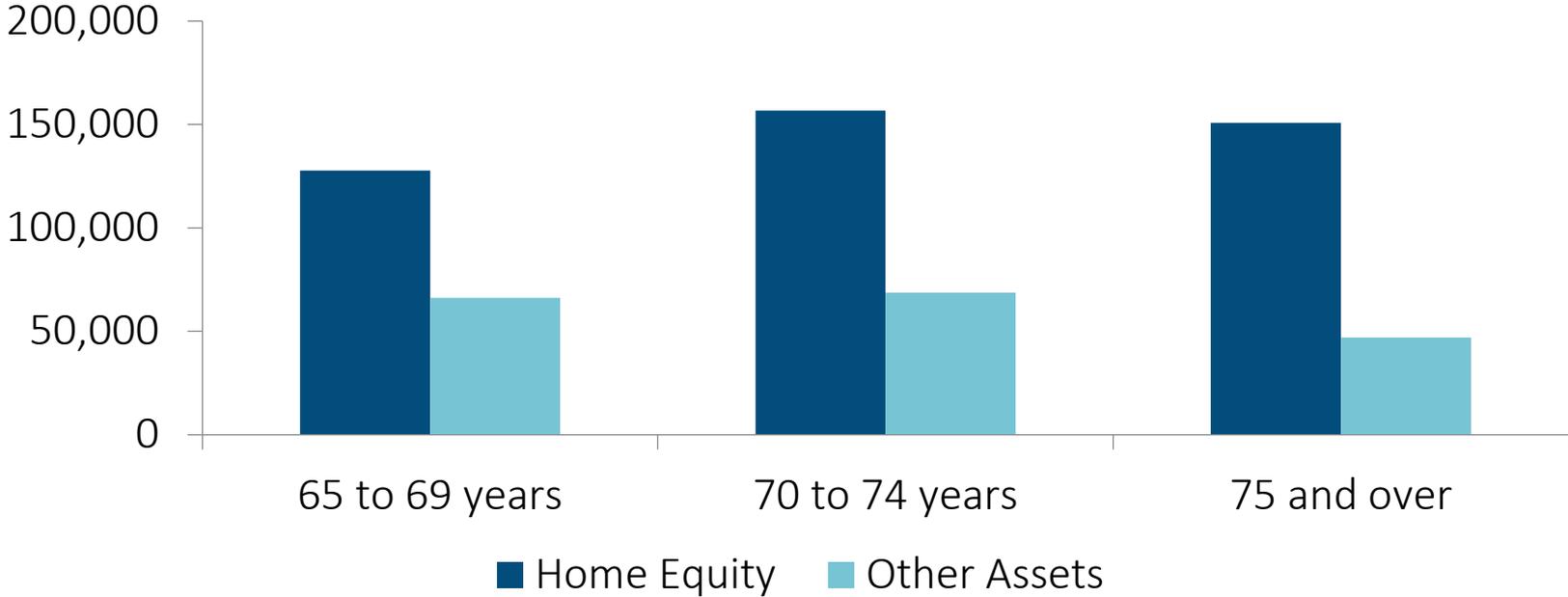
Sampled over 100,000 closed LTC claims in the past decade



## Caveats for a closed claim statistic

- Cost of care is rising so historical payments may not be perfect indicator of future costs
- Although it's a large dataset, closed claims have an inherent bias for being on small side
- Benefit design can be very influential on average size

# Median Net Worth of Older Americans



## How much does care cost?

- Genworth's 2017 Cost of Care Survey:
  - Nursing home facility: \$85k-\$97k
  - Assisted living facility: \$45k
  - Home care: \$45k-\$50k
- Expected growth of cost: 3-4% per year

## How much coverage is needed?

- LTC sales provide an average of \$200k-\$300k
- Average LTC claims have been less than \$100k
- Could long term care coverage be divided into two buckets?
  - Cover the approximate 80% of claims that have been under \$100k
  - Catastrophic coverage for those extended stays

# Major Considerations for Reinsurers When Evaluating a Product



## What is the target market?

- Socio-economics
- Life insurance or LTC focus?
- Funding patterns / cash value accumulation

## What is the distribution channel?

- D2C or agent driven
- Single or multi-product offerings
- Life insurance or LTC focus?

## What is the underwriting?

- App questions
- Agent or tele collected app
- Use of automated engine
- Use of predictive models

# Questions?





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