



**INSURANCE  
ADMINISTRATION**

## **2019 LTC Hearing**

**Office of the Chief Actuary**

**Tuesday, August 20, 2019**

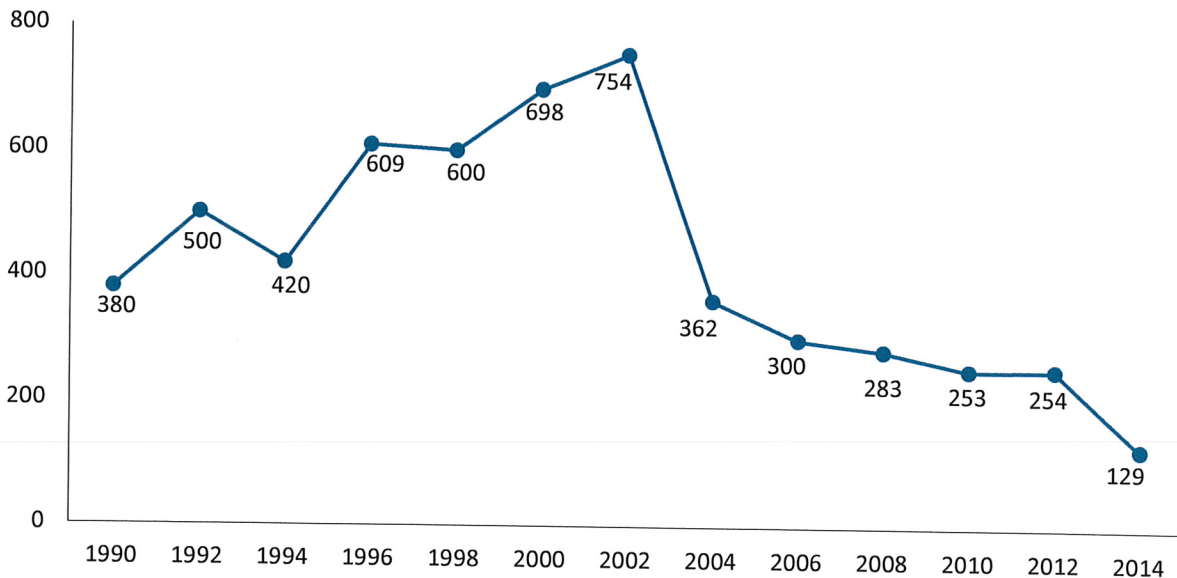
**Presenter: Todd Switzer, Chief Actuary**

## The State of the Long-Term Care Insurance Market

Typically, employee take-up rates are between 5% and 7%. Some have suggested there are at least 5,500 employers, representing an additional 3 million employees who have similar characteristics as employers currently offering policies.<sup>10</sup> This further supports the notion there is room for market growth in this segment.

**Figure 2: Individual Market Sales: 1990–2014 (Thousands)**

Source: LifePlans Analysis Based on AHIP, LIMRA and LifePlans Sales Surveys, 1990–2015



One area of continued growth in the market is with combination or hybrid products. These products combine LTC benefits with either life insurance or an annuity. They can pay out if LTC is needed, but if not needed, there is a death benefit or annuity payout. In cases where an individual uses some, but not all, of LTC benefits, the remainder would be payable as a death benefit. This is one of the principal appeals of combo products. If LTC is never needed, there is still a return on the money invested in the premium.<sup>11</sup>

<sup>7</sup> Mercer, 2010. Mercer National Study of Employer-Sponsored Health Plans.

<sup>8</sup> Pincus J, K. Wallace-Hodel, K. Brown, 2012. "The Size of the Employer and Self-Employed Markets without Access to Long-Term Care Coverage," The SCAN Foundation.

<sup>9</sup> Note: There does appear to be a discrepancy between the number of employers offering the coverage as reported by the Mercer study and by the Life Insurance Marketing Research Association (LIMRA), which reports the number of employers offering coverage in 2010 to be 11,500.

<sup>10</sup> Pincus J, K. Wallace-Hodel, K. Brown, 2012. "The Size of the Employer and Self-Employed Markets without Access to Long-Term Care Coverage," The SCAN Foundation.

<sup>11</sup> Tell, EJ. 2013. "Overview of Current Long-Term Care Finance Options," The SCAN Foundation.

# Shift to hybrid products (2<sup>nd</sup> Generation

LTCI



- Premiums for hybrid plans have overtaken traditional plans

— Important to note that most hybrid premiums are single premiums

Sources: 2001-2014 Broker World Surveys and LIMRA's Individual Long-term Care and Life Combo Products Annual Reviews



# Exhibit 1: Percentage Change in Present Value of After-Tax Profits

(Two-Year Accelerated Benefit, Four-Year Extension of Benefit, with Inflation)

	115% of LTC Incidence	115% of Active Life Mortality	Decreased Investment Earnings	90% of Claim Termination Rates	50% of Standard Lapse
STANDALONE LTC	-61%	13%	-39%	-58%	-15%
LIFE AND LTC COMBO	-30%	15%	-15%	-24%	-34%
ANNUITY AND LTC COMBO	-7%	-2%	1%	-7%	12%

company, then held in reserve to pay benefits many years down the road. Interest rates are much lower than anticipated, resulting in insufficient funds to pay for future benefits.

- Higher costs of providing LTC—This is consistent with the broader issue of rapidly rising medical costs in the United States.
- Strong persistency—Insurance companies typically estimate what proportion of policies will ultimately stick around long enough to be eligible for benefits. These estimates were generally too low for LTC policies, and more policies than anticipated are eligible for benefits.

These financial difficulties have caused most insurance companies to raise the premium rates on existing policies by double-digit percentages. Premium increases of 20 percent to 50 percent have been common. Even though the terms of these existing policies allow for premium increases, and state regulators need to approve them, they are unexpected by the policyholders and harm the credibility of the insurance companies. A large number of companies have stopped selling new LTC policies or suppressed their sales volume. By 2011 the number of insurance company providers

for retail LTC policies was down to 20.<sup>7</sup> Over the past five years, 10 of the top 20 LTC providers have exited the market.<sup>8</sup> This has dramatically reduced the current availability of standalone LTC policies.

It is indisputable that U.S. consumers do not currently have sufficient private insurance solutions available for their LTC needs. The range of solutions is limited, and the volume of supply is constrained.

### LTC COMBOS

Increasing the volume and variety of private insurance solutions requires fundamental risk profile changes. If that is accomplished, additional insurance companies will be motivated to offer products, thereby unleashing product creativity as well as consumer access

to these solutions. LTC Combos, products that combine LTC benefits with either life insurance or annuities, are the most promising product solution for this consumer need.

The Pension Protection Act of 2006 (PPA) contains provisions favorable to LTC Combos. Under the PPA, funds in a life insurance or annuity policy can be used to pay for qualified LTC premiums without creating a taxable event to the policyholder. Prior to PPA, use of these funds would generate a Form 1099 for taxable income. An LTC product is "qualified" if it satisfies several benefit and consumer protection provisions created by HIPAA and codified in IRS Section 7702B(b). In essence, this requires that an individual must be receiving care pursuant to a plan of care prescribed by a

## Join the Long Term Care Insurance Section

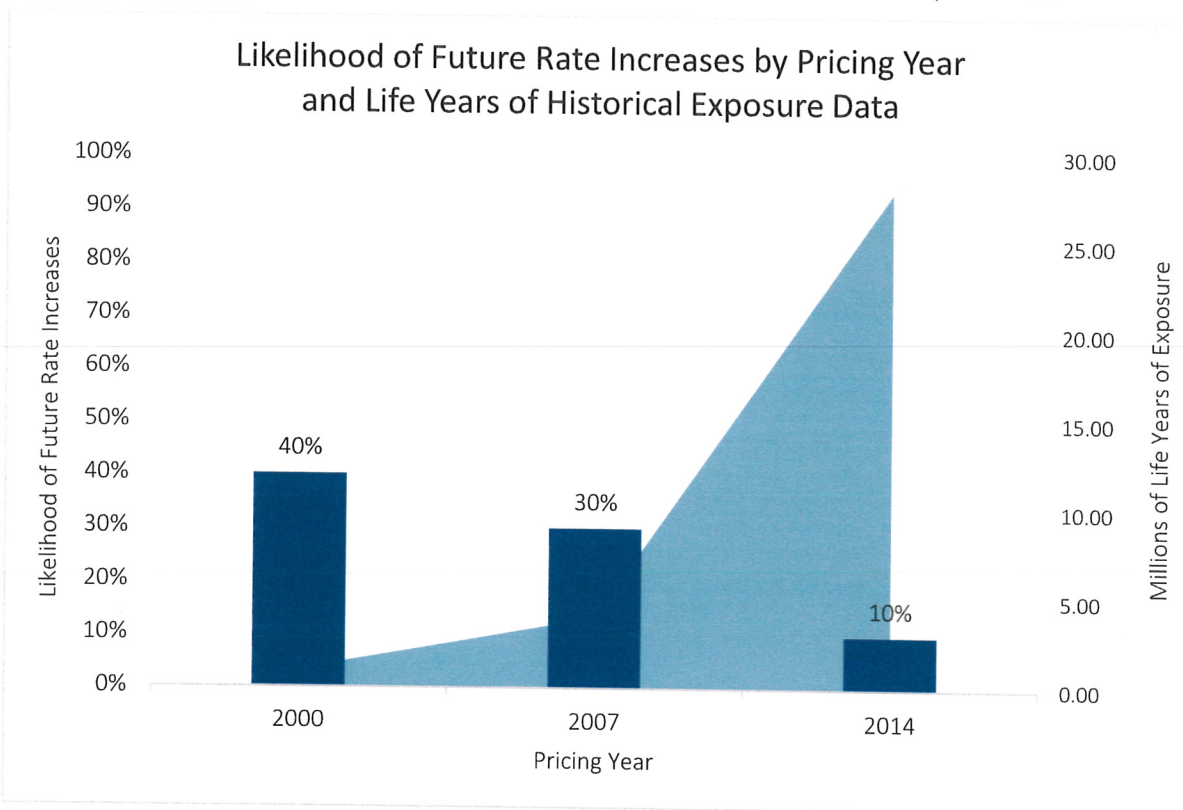
AS A MEMBER, you'll receive numerous benefits including:

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- Access to LinkedIn discussions
- Exposure to specialized projects

Visit [www.soa.org/ltc/](http://www.soa.org/ltc/) for more information.

In Figure 14, the likelihood of a rate increase is based on the quantity of historical data used for morbidity assumptions by the risk of lower-than-expected lapses and the size of the company’s risk margins. The distribution of actual future morbidity was assumed to be normally distributed around the *a priori* best estimate. The probability of a rate increase is highly correlated across companies. For example, a 40% chance of a rate increase affects all companies in the industry in the same way that a 40% chance of rain affects all houses in a neighborhood. Future results may be significantly different from the ranges in the model because of secular changes in morbidity, mortality and lapses. For example, an effective treatment for Alzheimer’s disease could cause future morbidity to improve beyond the range implied by the normal distribution in this model. Please see the Technical Appendix for more details.

Figure 14: Likelihood of Future Rate Increase by Pricing Year and Life Years of Historical Exposure Data



The likelihood of needing future rate increases, by pricing year, and the life-years of historical exposure data available at the time of pricing.

The implications of these results are cause for optimism. First, improved premium stability implies a lower risk of policyholder disruption. Second, if rate increase requests are less frequent and/or lower, there is less regulatory risk for companies seeking any future rate increases. Finally, the reduced likelihood of premium rate increases implies more stable and potentially greater profitability for companies issuing policies today. Technical details on the modeling of these results can be found in the Technical Appendix.

*Regulatory Environment*

To address premium rate instability, the first "rate stabilization" NAIC Long-Term Care Insurance Model Regulation was passed in 2000. It was adopted by states over the succeeding five to 10 years and has