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Protection and Care Needs in Later Life

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Agenda

- Demand for care insurance
 - Why should demand be high?
 - Why demand is low!?
- Consideration of supplying care insurance
 - Product structure
 - Pricing
 - Underwriting & Claims
 - Marketing & Distribution



Demand for care insurance

– Why should demand be high?

- Care Act
- Ageing and isolated population
- Cost of care

– Why is demand low?

- Complicated and confusing
- Over optimistic
- Change in systems



Care Act 2014



Care Act 2014

CHAPTER 23

How the system works:

- State support only available once the individual has spent minimum amount on care needs (Lifetime cap)
- The Lifetime cap is currently set at £72,000
- Cap may be reduced through means testing

Limitations:

- Care must meet national minimum eligibility criteria
- Only care payable at Local Authority Rate accrues towards the cap
- Cost of residential care is excluded
- Regional variations and inconsistency

Explanatory Notes have been produced to assist in the understanding of this Act and are available separately



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Ageing and isolated population

We're living longer

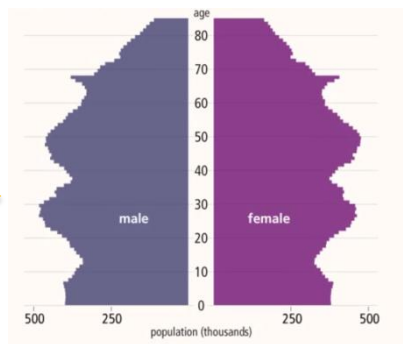
1971



Popn: 55.9 million people

Dependency ratio:
280 over 65's for every
1,000 in working age
population

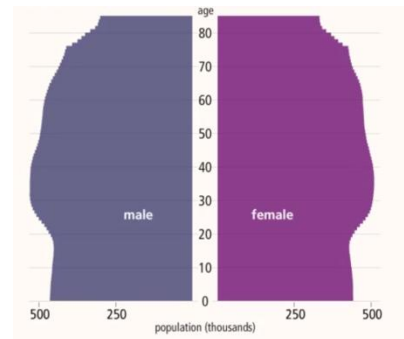
2014



Popn: 63.9 million people

Dependency ratio:
336 over 65's for every
1,000 in working age
population

2083



Popn: 85.7 million people

Dependency ratio:
581 over 65's for every
1,000 in working age
population

(Source: ONS, 2012)

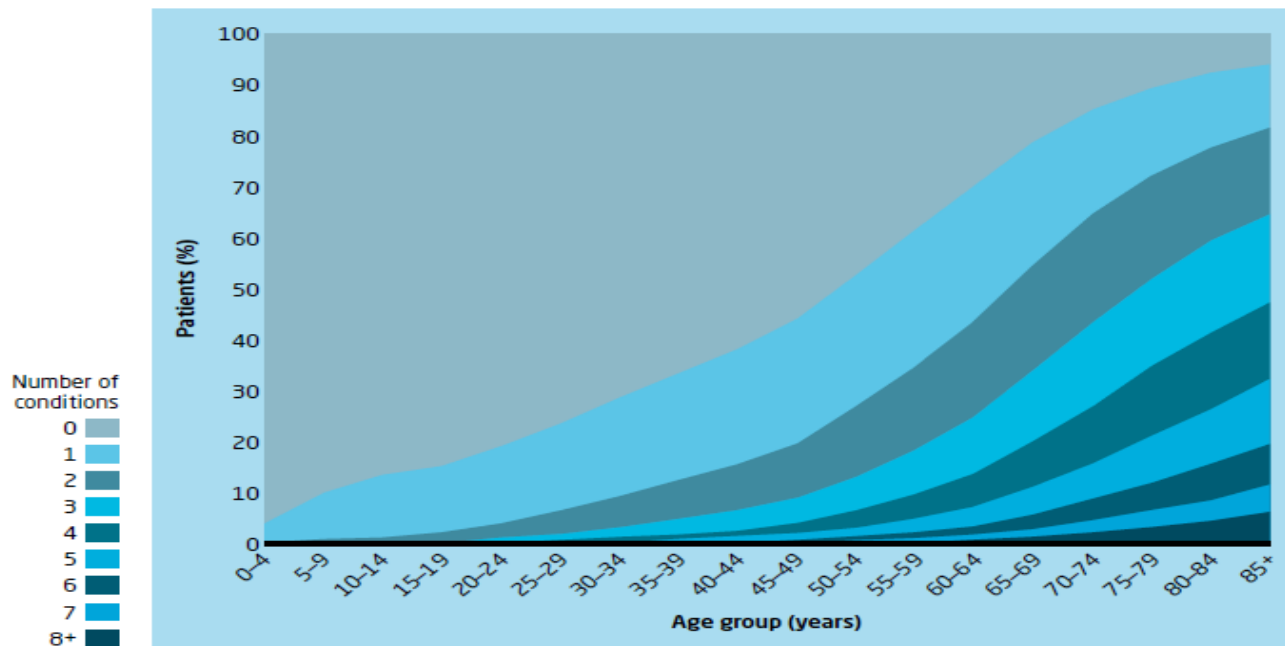


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Ageing and isolated population

Illness of later life - Older people living with multiple conditions

Figure 5 Morbidity (number of chronic conditions) by age group



Source: Barnett *et al* 2012

Reprinted from *The Lancet*, vol 380, pp 37-43, © 2012, with permission from Elsevier.



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Cost of care

Cost of long term care

Average Cost of at-home Carer £13,000p.a. (2hrs per day)

Average Cost of Residential Care £27 650 - £38,000p.a.

Cost of a mobility scooter Ranges from £400 - £3 000

Cost of an adjustable bed Ranges from £350 - £3 500

Cost of a bath lift Ranges from £150 - £550

Individuals could pay up to £140,000 before reaching cap with only 8% of men and 15% of women, aged 85 today, ever reaching the cap.

This can increase to £250,000 if in care for 10 years (estimated 1% of people will need care for 10 years)

Source: Institute and Faculty of Actuaries study



Elderly 'face £150,000 care bill before hitting cap'



Cap on care costs 'won't kick in until you've paid £140,000', says report which claims just one in 10 will get state help



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Demand for care insurance

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– Why is demand low?

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Complication and confusion

- Social care or Health care



- Care cost or “hotel” cost



- Mean tested / Care cap

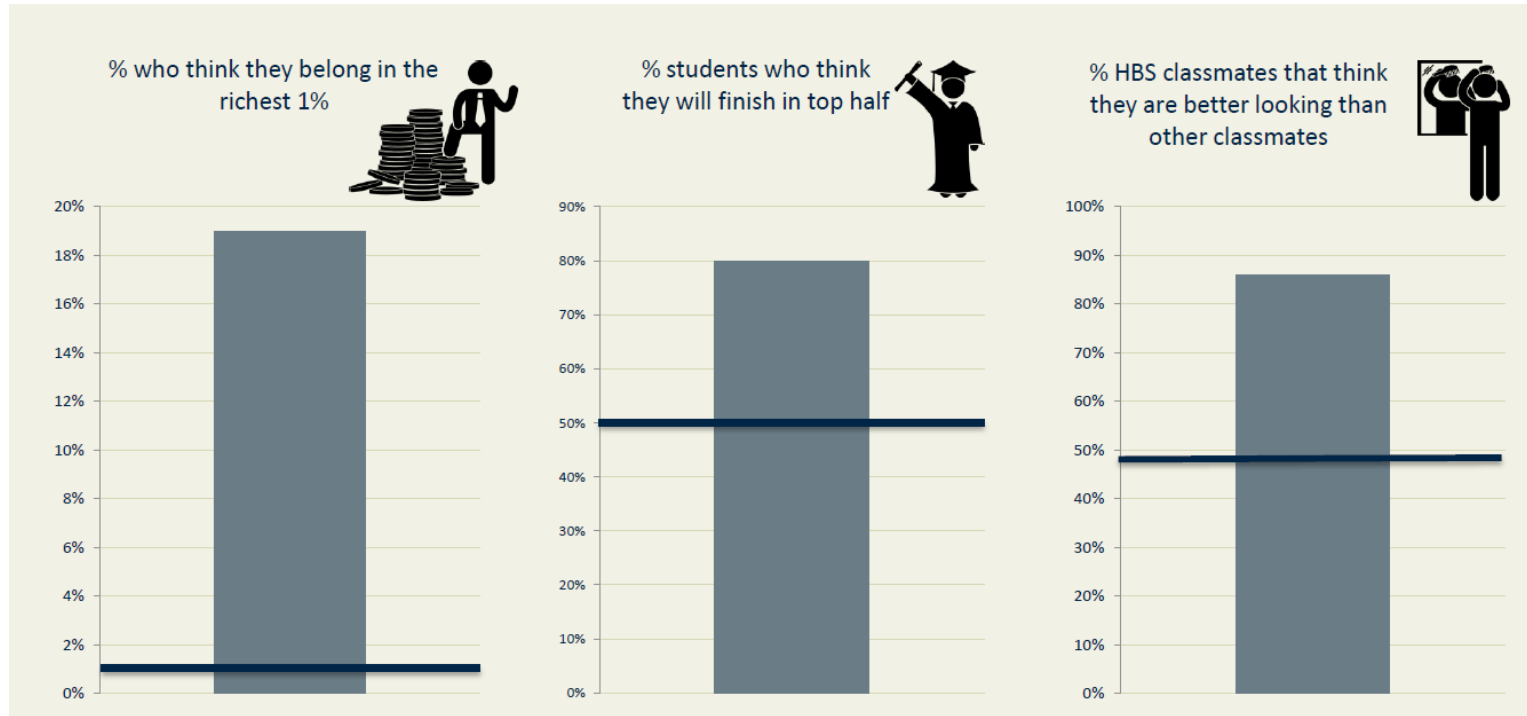


- Geographical variations



Consumers are over-optimistic

Our expectations are greater than reality

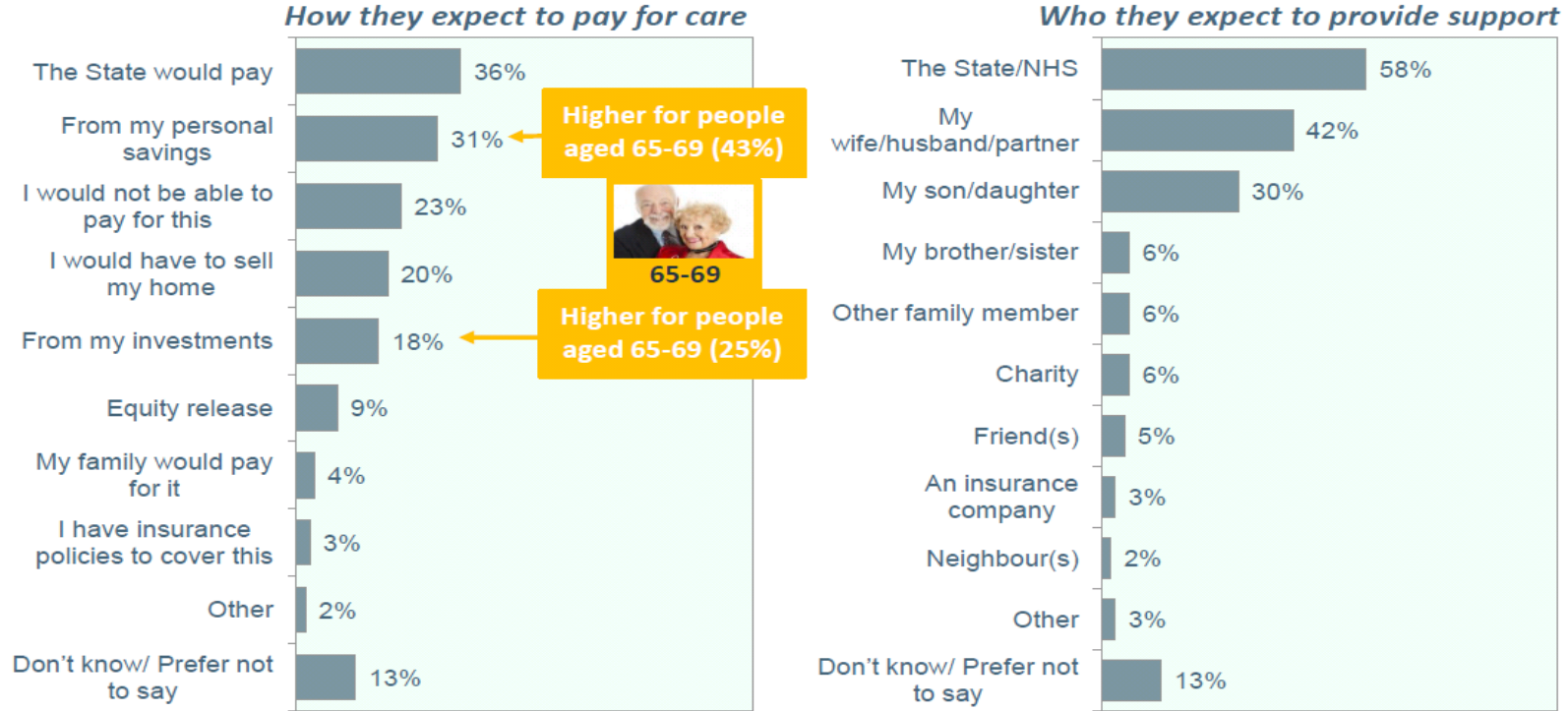


(Source: Harvard Business School)



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Expectation about care in later life

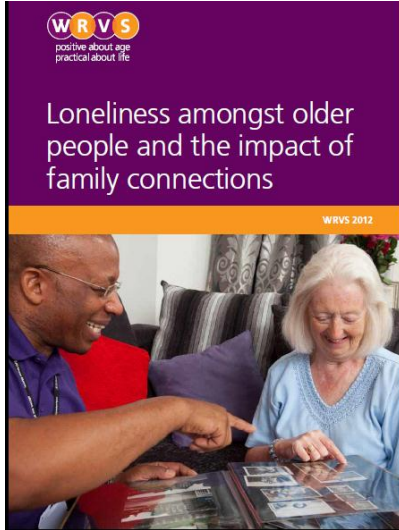


Source: VitalityLife market research 2014



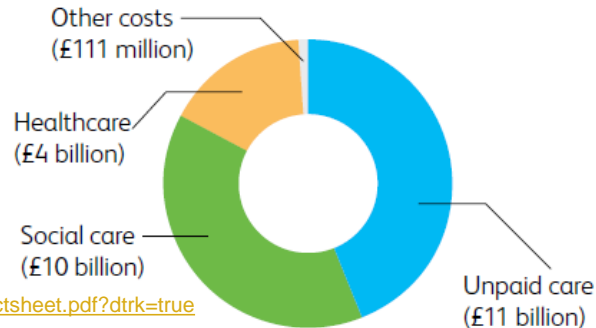
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The family care gap



- By 2017 the number of those requiring care will outstrip the number of adult children able to provide care
- 3.8 million 65+ live alone - this is 36% of all people aged 65+ in GB
- Nearly 2.5 million people over 75 live alone
- 15% aged 85+ live more than 40 miles apart from their children

Cost of dementia



Source: The Generation Strain (Institute of Public Policy Research)

Age UK http://www.ageuk.org.uk/Documents/EN-B/Factsheets/Later_Life_UK_factsheet.pdf?dtrk=true

WRVS – Loneliness amongst older people and the impact of family connections

ONS, Alzheimer's Society 2014, IPPR, The Times



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Consideration of supplying care insurance

- **Product Structure**
 - **LifestyleCare Cover**
- Pricing challenges
- Underwriting & Claims
- Marketing & Distribution



Product Structure

Protection products

Idea	Positives	Negatives
Income Protection conversion	<ol style="list-style-type: none">1. Working population.2. IP premiums can be expensive – affluent target market.3. Claims triggers are similar (ADL's).	<ol style="list-style-type: none">1. Small market.2. Different target market.3. Anti-selection on conversion.4. Expensive to pre-fund selection risk?
SIC/CIC conversion	<ol style="list-style-type: none">1. Products have similar purpose.2. High sales volumes.3. Working population.	<ol style="list-style-type: none">1. Removal of “conditions” is negative.2. Different target market.3. Anti-selection on conversion.4. Expensive to pre-fund selection risk?
Whole of Life acceleration	<ol style="list-style-type: none">1. Appropriate target market.2. Reduced anti-selection.3. “Cheapest” option.	<ol style="list-style-type: none">1. Large proportion of sales are at low sum assured (GA).2. Smaller market compared to term.3. Complicated sale compared to life only.



Product Structure

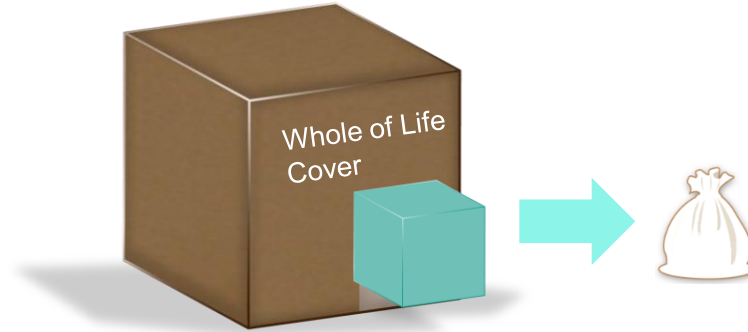
Insurance products

Idea	Positives	Negatives
Immediate Needs Annuity / Equity Release	<ol style="list-style-type: none">1. No pre-funding / loss of pre-funding.2. Using accumulated assets (home).	<ol style="list-style-type: none">1. High upfront cost.2. Loss of capital / house.
Disability Linked Annuity	<ol style="list-style-type: none">1. Could be seen as affordable.2. Using pension pots.3. Well established market (standard annuities).	<ol style="list-style-type: none">1. Loss of income before disability.2. People want more now.3. Small pension pots.4. Loss of “boost” if never meet disability definitions.
Stand Alone LTC (Pre-funded)	<ol style="list-style-type: none">1. Likely to be appropriate target market.2. Cheaper than INA/Equity Release.	<ol style="list-style-type: none">1. Expensive regular premiums.2. No surrender/death value – loss of premiums.3. Insurers are more cautious with this product given previous experience.



LifestyleCare Cover

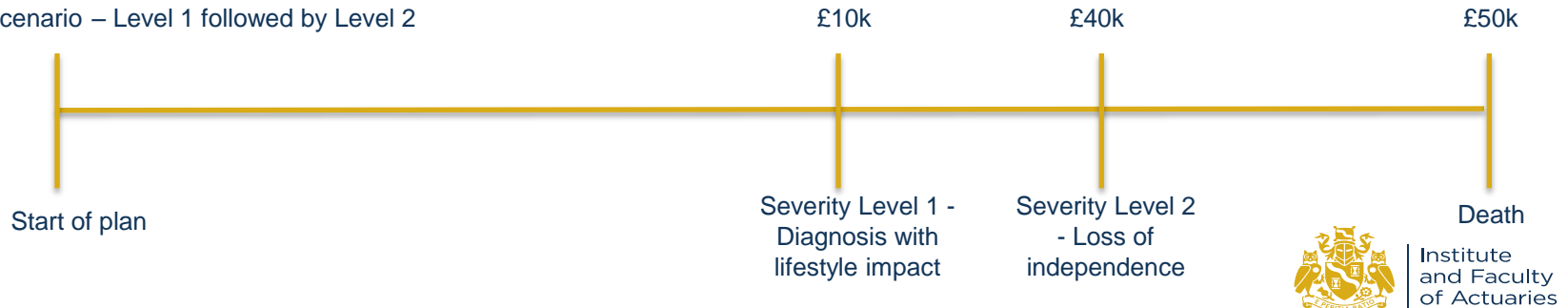
- Access to death benefit early



- LifestyleCare Cover in action:

Client selects **£100k for whole life cover** with **£50k LifestyleCare Cover**

Claims scenario – Level 1 followed by Level 2



Consideration of supplying care insurance

- Product Structure
- **Pricing challenges**
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Pricing

- Historical losses
- Incidence rates
 - Little insured lives UK data
 - Input from overseas
 - Illnesses resulting in care needs
 - CI pricing extended to older lives

Elderly set to win millions in 'lifetime care' ruling.
Axa is ordered to refund premiums plus interest

Genworth Posts \$760 Million Loss on Long-Term Care Costs



LifestyleCare cover

Claims triggers

Scales	Description
Edmonton Frailty Scale	Using a scoring system considering impact such as:- 1.Cognitive impairment 2.Nutrition (weightless) 3.Number of hospital admission in the last year
IADL's	Instrumental Activities of Daily Living such as:- 1.Ability to use telephone 2.Shopping 3.Housekeeping
ADL's	Activities of Daily Living include:- 1.Washing 2.Getting dressed 3.Getting in and out of bed
Condition based	On diagnosis of certain conditions such as:- 1.Alzheimer's 2.Parkinson's 3.Cancer



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Pricing

- Pre and post claim mortality
- Future trends
 - standard mortality and CI trends
- Lapse assumptions
- Guaranteed rates
- Consumer testing
 - product structure and price



Pricing

- Reasonability checks

- Number of years that LifestyleCare Cover accelerates death payment compared to WOL

Entry age	
50	8 years
70	6 years

- Medical studies

- life expectancy from medical studies

Source: Hannover Re



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Pricing (Vitality Impact)

- 35% lower risk of heart disease and stroke
- 50% lower risk of type 2 diabetes
- 68% lower risk of hip fracture
- 30% lower risk of falls (among older adults)



Source: NHS, 2014



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Consideration of supplying care insurance

- LifestyleCare Cover
- Pricing challenges
- **Underwriting & Claims**
- Marketing & Distribution



Underwriting

- WOL Death Benefit
 - Underwriting approach unchanged
- LifestyleCare Cover
 - In general LCC follow Life ratings
 - Underwriting older ages
 - Family History
 - Application form



Claims assessment

- Lump sum benefit
 - no ongoing claims assessment
 - although can move to higher severity level
- Judging severity
- Fair assessment of claims
 - Reputation risk
 - Alzheimer's/ Dementia, is claimant able to submit a claim



Consideration of supplying care insurance

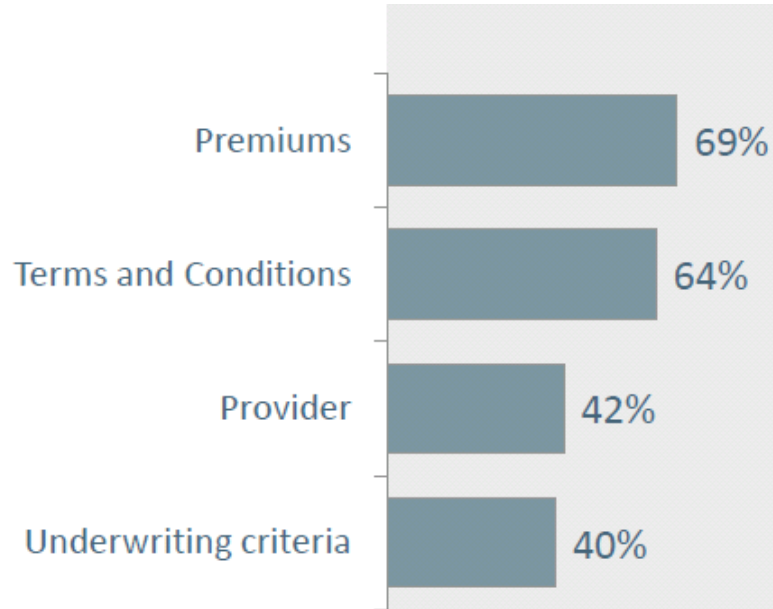
- LifestyleCare Cover
- Pricing
- Underwriting & Claims
- **Marketing & Distribution**



Marketing and Distribution

- Most important factor in deciding whether to buy or not?

- Simplicity
- Affordable premiums
- Life underwriting
- Guaranteed payment
- Guaranteed premium



Source: VitalityLife market research 2014



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Marketing and Distribution

- Who will want to buy this product? (target market)
 - 45-54 year olds – 49% find the product appealing
 - 55-64 year olds – 37% find the product appealing
 - 65-69 year olds – 37% find the product appealing
- Distribution channel?
 - Face to face
 - Research opportunity online
 - Similar to over 50's plan (TV, newspapers)

Source: VitalityLife market research 2014



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Marketing and Distribution

- Intermediaries

- Target audience seen as 40-50 years old
- Price is a very important factor
- Sold face to face
- Sales aids to help include:-
 - Case studies
 - Comparison to over 50's
 - Facts and figures
- Not LTC, all protection advisers can sell!!!

"I like the fact that it's integrated into whole of life because that's something you can have a conversation with your clients about."

"Nice and simple. Probably very easy to sell."

Source: VitalityLife market research 2014



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Conclusion

- Demand for care insurance
 - Why should demand be high? Clear need for insurance / provisions.
 - Why demand is low!? Confusion and over optimistic.
- Consideration of supplying care insurance
 - LifestyleCare Cover – Simple, affordable and reduced selection. Claims triggers IMPORTANT!
 - Pricing – Lack of data, pre/post mortality, acceleration of death.
 - Underwriting & Claims – Follow life UW, “one off” claims assessment.
 - Marketing & Distribution – Advised sales, target market 40-50, simple.



Questions

