

The 2002 Healthcare Conference

Successful ways to write LTC
Lessons from Europe
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Fear of poor health in old age ...

- **A Problem for Developed Countries**
 - Population ageing
 - Family structure
 - Fear of poor health in old age is replacing fear of dying
- **Long Term Care in France: some figures**
 - 530 000 people really dependent in 2000
 - People over 60: 12 million in 2000, 21 million in 2035
 - Cost of Long Term Care: about 35 000 € per year per person

Long Term Care Costs

- Long Term Care is one of the biggest threats to an elderly person's wealth
- LTC Risk Financing
 - Linked to income (USA, UK, Germany)
 - France: PSD / APA
 - Insufficient public financing



Growing development of Long Term Care Insurance

Long-Term Care Insurance: product with a future

Two big Long Term Care Insurance Markets

France: the most developed European Long Term Care Insurance Market

	FRANCE	USA
Public benefits	PSD / APA	Medicaid / Medicare
Experience	15 years	15 / 20 years
Market annual growth	20%	20%
Market size	1.5 million policy holders	6 million policies
Products	Indemnity (cash benefits)	Reimbursement

LTCI in other European Union Countries

- Germany
- United Kingdom
- Italy
- Spain
- Belgium

Germany

- A global state cover for LTC
- Compulsory insurance (1.7% on wages), so less insurance problems
- 1.8 million elderly people receive benefits (cash benefits and assistance benefits)
- A tiny market for private insurance

UK

- A vague social and political background
- State assistance if limited assets (under £18,500)
- Products with a savings/investment element with detailed medical underwriting
- A small market: only 30,000 policies sold

Italy

- 800,000 dependants. Estimated total cost at 15 Billion Euros
- State policy towards the risk
- Lack of population understanding
- LTCI products developed by main insurance companies... but still a budding market

Spain

- No significant LTCI market
- Expecting the state to introduce a law giving tax credit soon

Belgium

- An old LTCI market
- But still of little size
- Signs that it should develop significantly in the coming years
 - State benefits soon put in place
 - Group covers
 - LTC pension covers

LTCI in Canada, Chile and Asia

- Canada
- Chile
- Asia
 - Japan
 - Singapore
 - South Korea

Long Term Care insurance in France

Reasons for a success

Reasons for the French Success


French State Attitude to Elderly Care

Key facts

- 800,000 dependant people in France in 2002
- 12 million over 60s in 2002 (14 million in 2010)
- State benefit (PSD/APA) since start of 1997

PSD

- Average amount of annuity
 - €500 per month at home
 - €250 per month in an institution
- Based on a state definition of LTC (AGGIR)
- Linked to income
- Partially financed by inheritance
- Inadequate to cover the total cost of long-term care

Refinement of the state benefit  APA, introduced in 2002

APA

- Cover for less severe level of dependency
- Higher benefits
- Not financed by inheritance
- Still based on the AGGIR Grid
- Still linked to income
- Still insufficient to cover the total cost of long-term care

More successful than PSD \Rightarrow Increased perception of the risk by the population

AGGIR grid to evaluate the loss of autonomy

The 10 criteria of the AGGIR Grid

- | | |
|-----------------|-----------------------------------|
| 1 - Coherence | 6 - Urinary and faecal continence |
| 2 - Orientation | 7 - Transferring |
| 3 - Toileting | 8 - Movement indoors |
| 4 - Clothing | 9 - Movement outdoors |
| 5 - Food | 10 - Telephone communication |

A scoring grid to split the population in 6 groups

The 6 Groups of the AGGIR Grid

- GIR 1: elderly people confined to bed or chair, with seriously affected intellectual functions, continual presence of health care personnel essential
- GIR 2: two groups of elderly people
 - Those confined to bed or chair, with intellectual functions not totally affected, but needing assistance for most activities of daily living
 - Those with affected mental functions but are still mostly able to move around

The 6 Groups of the AGGIR Grid

- GIR 3: elderly people who have retained their intellectual faculties and part of their ability to move around but who require assistance several times a day for their physical autonomy. Most of them cannot manage their urinary and anal functions unaided.
- GIR 4:
 - Those who are unable to get up on their own, but once up can move around indoors. They sometimes need help with washing and dressing. Most of them can eat without assistance;
 - Those who have no problem in moving around but need help with bodily functions and meals.

The 6 Groups of the AGGIR Grid

- GIR 5: people who can move around inside their home without assistance, and can eat and dress themselves alone. They require occasional help with washing, preparing meals and doing housework.
- GIR 6: people who have not lost their autonomy for the discriminatory activities of daily living.

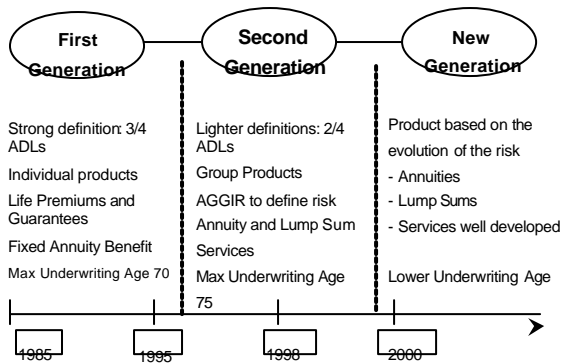
What PSD/APA has achieved

- The AGGIR grid has become a national reference
- Strong perception of requirements of those insured
- **Significant demand for a simple LTCI protection plan**

Reasons for the French Success

Product development practice

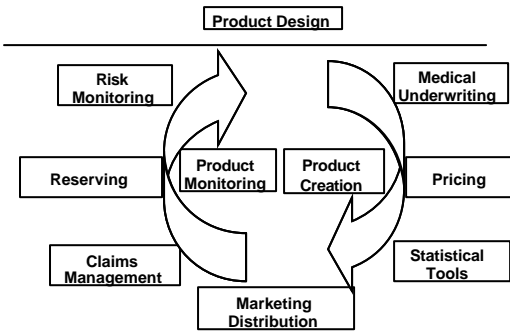
LTCI Product Generations



LTCI in France : Key facts

- First European market: 1,500,000 policyholders in 2002
- Market API 2002: 200 m€
- A large range of products
- A market still growing fast: 20% pa

Product Creation and LTCI Product Cycle



Type of Product

- Individual Products
 - Simple Protection Plan
 - Doubling of in-payment pension annuity
 - Immediate Annuity
- Group Products
 - Company Scheme
 - « Mutuelles » (Friendly Societies)

Individual Products

Product design

- Definition of risk
 - ADL
 - AGGIR Grid
 - Case of Dementia
- Type of benefits: Cash benefits
 - Annuity
 - Lump Sum
 - Services

Individual Products

Product design

- Deductible
- Price Structure
- Indexation based on underwriting and financial result

Individual Products

Underwriting

- Medical underwriting
 - Simplified Application form
 - Waiting periods
 - Maximum Age at entry
- Financial underwriting
- Strict underwriting to ensure the level of premium

Individual Products

Pricing

- Actuarial Basis
 - Incidence rate of dependency
 - Longevity of non-dependants
 - Longevity of dependants
 - Selection effects
- Substandard risks
- TOTALLY REVIEWABLE PRICING:
 - Essential for a long term risk

Individual Products Standard Profile of an Insured

- 65% women
- Average age at entry 65
- Average monthly annuity €400
- Average annual premium €300

Individual Products Claims Management

- A strict claims management policy
- The premium only reflects the medical practice

Individual Products Marketing and Distribution

- Keys to success
 - Make it simple to understand
 - Make it simple to sell
 - Have a powerful distribution network
 - Target the family
- Marketing message to sell LTC in France
 - Different from one company to another
 - Presenting the solution or showing the problem ?

Group Products

- No underwriting except for small groups
- Same benefit for every insured
- One premium per group
- Main characteristics of product copied from individual products

Group Products

Product Design

- Cover for Working AND Retired People
 - Annually Renewable Cover
 - Solidarity between generations
 - No Explicit Reserves for future risk
- Cover for Active People only
 - Group WL Level premium cover
 - Mathematical Reserves for future risk
 - Paid-up value
 - Preferred conditions after leaving the group

Reasons for the French Success

Marketing and Distribution

Marketing

- Key Facts :
 - Make it simple to understand
 - Make it simple to sell
 - Target the couple and the family
- Marketing message of the main players
 - Show the problem?
 - Or just the solution?

Distribution

- A key issue
- Powerful network for easy-to-sell products
- Success of banking networks
- Very limited impact of broker network

LTC: The French Success Lessons for the UK?

- « Marketing » by the state for insurance companies
- First: Simple products. Easy to understand and to sell
- Second:
 - Work with the level of knowledge and understanding of the population
 - Development of more sophisticated products
- Simplified underwriting

LTC : The French success

Lessons for the UK?

How much is it sensible for the UK Market ?

The Foreseeable Future of LTC in Europe

Reasons for Hope

- A European problem with different solutions today
- Still a lack of concern by the population in some European countries
- Balance between state benefits and private benefits to be found
- The future ?

The Foreseeable Future of LTC in Europe

Reasons for Hope: The State's attitude

- Need of a state benefit
 - Babyboomer generation
 - Solidarity: linked to income ?
- At which cost?
 - Germany
 - France
 - UK, Italy, Spain
- A place should be made for insurance companies to help answer this problem

The Foreseeable Future of LTC in Europe

Level of Concern of the Population

- Growing concern
 - Still first generation of people often living after 80
 - Fear of dying transformed into fear of not living well
- Family structure
- A retirement concern

The Foreseeable Future of LTC in Europe

Type of Products

- For some countries, evolving role of company schemes
- Products linked to pension
- Universal Life ...
- But once simple products are well spread into one market

Conclusion

LTC : Lessons from Europe

- A common concern of developed countries
- Already 15 to 20 years of experience in France and in the US
- A good level of knowledge of the risk by insurance professionals in these countries
- High cost of LTC
- Limited participation of State

Conclusion

LTC: Lessons from Europe

- Start with
 - Simple products
 - Simple underwriting
 - Target couple and family
 - Target young retired
 - Target middle class
- Other products to cover the real cost
 - Group products
 - Saving products

LTC Insurance

The Product of the Future

The Actuarial Profession

making financial sense of the future

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