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## Long Term Care Insurance The United States Market

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RGA Reinsurance Company, U.S. Individual Health

10 May 2013



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## Agenda

- Overview of the U.S. long term care (LTC) market
- Role of the long term care industry and working with the U.S. government and the U.S. regulatory environment
- Product and pricing evolution – today's assumptions
- Changes to and impact of Underwriting (UW) and Claims management
- Recent developments in the market
- Reinsurance in the U.S.
- What does the future hold for LTC in the U.S.?

Some slides adapted from the 2010 RGA (US) Actuarial Seminar, June 8, 2010

Presented by: Bruce A. Stahl, Dominic Hains & Jonathan Porter @ RGA

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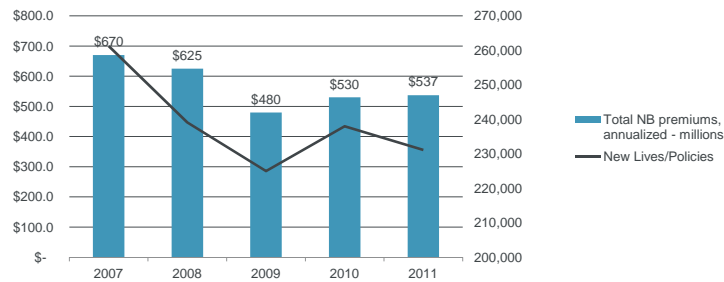
# ILTCI Market 2012 and Recent Market Developments

10 May 2013

## Recent Annual New Business Sales

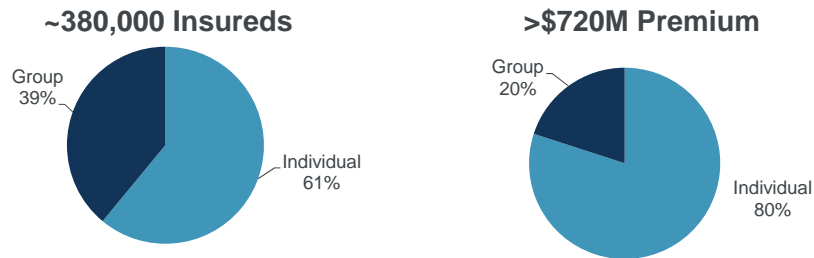
	2007	2008	2009	2010	2011
Genworth	\$ 171.3	\$ 163.6	\$ 107.5	\$ 142.0	\$ 206.5
Northwestern Mutual Life		--	\$ 36.7	\$ 46.7	\$ 68.1
John Hancock	\$ 145.1	\$ 122.1	\$ 116.1	\$ 143.8	\$ 51.8
Mutual of Omaha/United of Omaha	\$ 14.5	\$ 12.0	\$ 12.7	\$ 24.5	\$ 45.3
Prudential	\$ 19.1	\$ 19.9	\$ 17.9	\$ 25.0	\$ 38.7
New York Life	\$ 25.8	\$ 25.9	\$ 21.3	--	\$ 27.9
MassMutual	\$ 17.6	\$ 19.0	\$ 13.1	\$ 15.2	\$ 20.4
Transamerica		--	n/a	\$ 5.3	\$ 18.9
Bankers Life & Casualty	\$ 35.9	\$ 29.0	\$ 26.6	\$ 21.1	\$ 16.9
State Farm	\$ 13.5	\$ 14.4	\$ 11.1	\$ 11.3	\$ 13.2
Berkshire		--	\$ 12.6	\$ 12.0	\$ 10.6
MetLife	\$ 63.1	\$ 69.5	\$ 36.3	\$ 24.3	--
Allianz	\$ 19.7	\$ 18.9	--	--	--
MedAmerica	\$ 12.8	\$ 8.8	\$ 5.3	\$ 6.2	\$ 7.6

Blue font denotes no longer selling new policies



## 2012 LTCI New Business

### U.S. Individual LTC Insurance Annual Review 2012, LIMRA



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## 2012 Individual LTC Statistics

- 27 of 35 active carriers participate in this survey/review
- Reporting \$580 million new business
- 230,000 new policies
- Top 5 writers account for ~78% of the market
- 4.85 million lives in force

## 2012 Multi-Life LTC Statistics

- Approximately 18,000 new policies issued, 225,000 policies in force at YE 2012
- \$33 million of new business premium
- Average premium \$1881

U.S. Individual LTC Insurance Annual Review 2012, LIMRA



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## 2012 Employer Group Statistics

### U.S. Group LTC Insurance Annual Review 2012, LIMRA

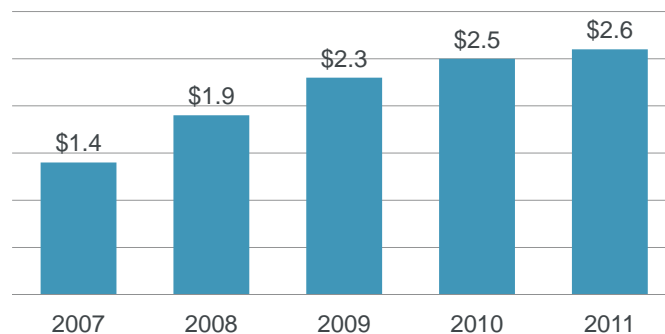
- Top 5 carriers (in force and new business): CNA, Genworth, John Hancock, Prudential, Unum (includes buy-ups from existing plans)
  - Only Genworth remains selling to new groups in this market
  - John Hancock only sells for the Federal Program
- Reporting \$144 million new business, \$71 million to new groups accounting for ~89,000 policies
  - Down 22% from 2011
- Top 5 writers account for ~96% of the market
- 2.4 million lives in force
- Average premium \$787



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## Recent LTC Claims Paid

Estimated LTC Claim Dollars Paid  
(Billion)



BrokerWorld LTC Survey Data 2007-2011



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## Market Movements

- Many companies significantly de-risked their products over the summer of 2012 – reduced benefit options, reduced discounts, reduced commissions
- Many companies are going to market in summer of 2013 with refreshed products
  - Gender-distinct-rated products
    - Cuts down on single females
    - Increases couples/married/joint sales
  - Higher premiums due to lower interest rate assumptions
- Lots of combination product chatter...
- Rate increases on older-generation products continue to be approved and implemented



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## Premium Discounts –2011/2012 LTCI Products

	<u>Preferred Health</u>	<u>2 Spouse</u>	<u>1 Spouse</u>
American General	10%	30%	15%
Bankers Life	10%	35%	15%
Country Life	10%	30%	15%
Genworth	20% single or 10% if both buy	40%	25%
Genworth after 7/1/12	0%	20%	10%
John Hancock	10%	30%	0%
Knights of Columbus	0%	15%	10%
Mass Mutual	10%	30%	15%
MedAmerica	10%	30%	15%
Mutual of Omaha	15%	35%	15%
New York Life	10%	15%	15%
NWML	0%	30%	15%
State Farm	10%	30%	0%
Thrivent	10%	35%	15%
Transamerica	15% single 10% married	30%	15%
Transamerica after 7/11/12	10%	20%	10%
United of Omaha	15%	35%	15%
United Security	0%	20%	15%

BrokerWorld LTC Survey Data 2011  
And RGA Proprietary Data



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## Benefit Offerings – 2011/2012 LTCI Products

	Fixed Periods, Paid Up Ages Limited Pay	Max BP offered
American General	none	\$1m pool
Bankers Life	10, 20	Life
Country Life	10, to 65	Life
Genworth	10, to 65	Life
Genworth after 7/1/12	none	10
John Hancock	20, to 75	10
Knights of Columbus	none	Life
Mass Mutual	10, to 65	Life
Mass Mutual after 6/29/12	none	6
MedAmerica FlexCare	10, to 65	10
Mutual of Omaha	10, 20, to 65	Life
Mutual of Omaha after 8/1/12	none	8
New York Life	none	Life
NWML	10, to 65	Life
NWML after 8/24/12	none	6
State Farm	none	10
Thrivent	10, to 65	10
Transamerica	1, 10, to 65	Life
Transamerica after 7/13/12	none	6
United of Omaha	10, 20, to 65	Life
United of Omaha after 8/1/12	none	8
United Security	none	Life

BrokerWorld LTC Survey Data 2011  
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## Market Notes

<u>Company and move</u>	<u>Effective Date</u>
Met exits ILTCI	1-Nov-10
UNUM exits GLTCI	1-Feb-12
Prudential exits ILTCI	7-Mar-12
Berkshire exits ILTCI	1-Apr-12
MassMutual stops Life BP and Limited Pay, reduces discounts, changes build chart, removes full ROP	29-Jun-12
Genworth stops Life BP and Limited Pay, reduces discounts, reduces 1st yr BGA commissions, changes UW on a few conditions	1-Jul-12
Transamerica 15% premium increase, stops Life BP and Limited Pay, reduces discounts	12-Jul-12
AIG exits ILTCI	31-Jul-12
MOO & UOO stops Life BP and Limited Pay, stops Broker ML, reduces 1st yr commissions for BGA 15%	1-Aug-12
NWML stops Life BP and Limited Pay	24-Aug-12
Prudential exits GLTCI	1-Sep-12
Thrivent re-enters the individual Long Term Care market	1-Sep-12
Physicians Mutual exits ILTCI	1-Apr-13



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## U.S. Government and the Regulatory Environment

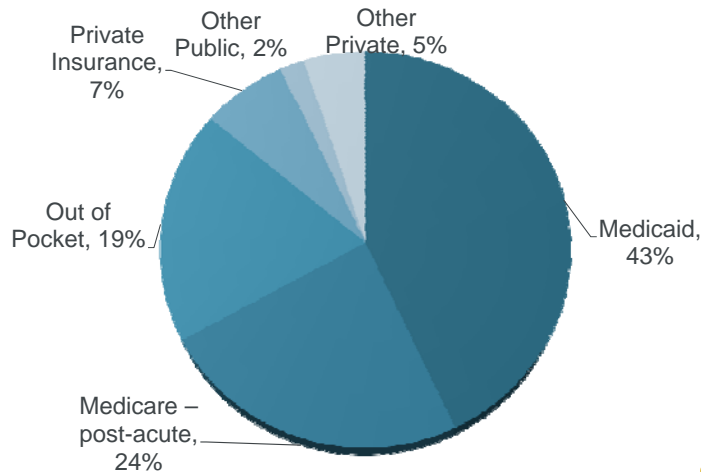
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### LTC & U.S. Government

- Medicare – National social insurance program founded in 1965 provides health insurance to retirees and disabled persons. Mostly funded via 2.9% payroll tax.
  - Nursing facility: 0-20 days pays 100%, 21-100 days requires a co-pay of ~\$150/day, 100+ days pays 0%
  - Limited coverage for home care, must be considered homebound – mainly skilled care
  - Medicare Supplement plans provide wraparound health benefits, not LTC
- Medicaid – Means-tested health coverage funded by states and federal government. Also covers children and disabled persons.
  - Nursing facility: pays full cost for 'Medicaid' beds (55%)
  - Home care: offered on a situational basis, state by state (45%)
  - Means testing loopholes

## Long Term Care Payers - 2009

According to Kaiser Commission on Medicaid Facts



Source: [www.kff.org/medicaid/upload/2186-09.pdf](http://www.kff.org/medicaid/upload/2186-09.pdf)



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## LTC and U.S. Government

- CLASS Act – developed in 2010 as part of President Obama's Patient Protection and Affordable Care Act (PPACA); was a federal voluntary public LTC program for employees; deemed not actuarially sustainable and was repealed in 2013
- Federal Long Term Care Insurance Program – began late 2002, early 2003; provides LTCI to federal employees, service members, some family; ~270,000 insureds at YE 2011 (John Hancock)
- Partnership Programs – links LTC policies to Medicaid for means testing; offered in roughly 40 states
- Tax-Qualified Policies – premiums can be accounted for on a tax-free basis (limits); benefits are tax free as well



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## U.S. Regulatory Environment

- The National Association of Insurance Carriers (NAIC) designed the LTC Model Regulation that all states follow as a benchmark for LTC policy requirements
  - Outlines framework for a tax-qualified product, benefits and features – mostly sets minimums
- The Department of Insurance (DOI) at each state must review and approve all new products, premium rates and marketing materials as well as rate increases on existing products
  - State-by-state discretion on product benefit and premium requirements
  - State-by-state discretion on rate increases
  - Wide range of rules and approvals, especially on rate increases
- Interstate Insurance Product Regulation Commission (IIPRC) - Interstate Compact program allows an insurance company to file its product once and receive multiple state approvals
  - Introduced LTC in 2010, includes roughly 30 states
  - Uniform standards allow for one filing to satisfy requirements for all member states



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## Product and Pricing Evolution: Current Assumptions

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## Early History

- Investor awareness of demographics
- Insurance agents saw need
  - Marketing-oriented insurers with little financial planning
  - Companies like American Travelers, Penn Treaty, CNA, and Firemen's Fund (now Genworth)
  - Primarily in senior market
    - Interest grew in late 1980s and early '90s
    - Primary health product in senior market was the natural model for LTC... Medicare Supplement
      - 3-day prior hospitalization requirement to qualify for benefits
      - Little understanding of medical underwriting of LTCI
      - Actuaries assumed high lapses in accord with Medicare Supplement



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## Early History Product Features

- Benefit Qualifications (triggers)
  - Prior to HIPAA in 1997
    - Medical necessity
    - Inability to perform 2 of 6 activities of daily living (ADL), including or excluding bathing
    - Cognitive impairment
- Automatic increasing benefits
- Lifetime (unlimited) benefits (no impetus to refrain from care, limit care, or end care)
- Waiver of Premium (impede value of rate increases)
- Return of Premium (terrible problems)



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## Providers of Care

- Insurance in '80s covered facilities
  - Skilled nursing homes
  - Intermediate care facilities
  - Sometimes custodial care facilities
- In early '90s expanded to home health care (HHC)
  - Initially skilled care
  - Added home health aides and homemaker
  - Respite care
- Assisted Living Facilities (ALF)
  - Did not have the stigma attached to entry
  - Pricing woefully inadequate and state regulators encouraged it



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## Distribution Channels

- Individual sales are the most common channel
- Association sales
- Employer group: “actively-at-work” underwriting
  - Only 1 carrier still writes true group LTCI
- Multi-life/worksites sales: growing interest, though concern over simplified-issue underwriting protocols



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## Actuarial Mistakes

- Early projection models failed to inflate benefits while person was receiving benefits
- High decrements (individual and group)
  - Softened the claim cost slope
  - Much worse for automatic increasing benefits and limited pay
  - Also worse for waived premium and return of premium
- ALFs
- Providing HHC as an alternate plan of care at no extra cost
- Use of population nursing facility incidence and continuance tables
  - Differs for insured population
  - Differs by provider type
  - Differs by degree of benefits; lifetime benefits have higher incidence and longer periods of care (average age of claim dropped about 4 years)
- Morbidity improvement without mortality improvement
- Regional behavior differences
  - Midwest nursing homes and Florida HHC
  - More marketing-driven vs. price-driven
- Failure to recognize behavior of agents and customers toward differences in underwriting among insurers



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## Pricing in the U.S. Today

- Rate stability certification
  - Premium rates adequate to cover moderately adverse experience
  - Gross premium rates less statutory net premium is adequate to cover renewal expenses (for most cells)
  - Quite a contrast to minimum lifetime loss ratios (note 59.95% experience)
- Actuary empowered to audit underwriting and claims administration (no more pricing based on an interview with management)



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## Pricing in the U.S. Today

- Deterministic for expected projection
- Scenario testing and/or stochastic simulations for defining moderately adverse scenarios
- Reinsurer and ceding company come to agreement on what adverse experience would require the filing of a premium rate increase



## Assumptions

- Incidence/Continuance
  - U.S.
    - 1985, 1995 National Nursing Home Surveys; 1982, 1984, 1989 National LTC Surveys
    - Insured data limited and based on older benefit triggers; newer products still in select period; database growing in credibility
    - Older product experience includes ADL and cognitive impairment triggers; can exclude the short-term, medical necessity claims
- U.S. Utilization (paid percentage divided by daily maximum)
  - Insured data with expense reimbursement
  - Ratio of each benefit check over potential maximum for time period covered by each check
    - Policy type, gender, marital status, benefit period, automatic benefit increases, unlimited benefits and presence of Automatic Benefit Increases (ABI), policy duration, claim duration, diagnosis group at onset of claim



## Assumptions

- “Disabled” life mortality
  - SOA studies this variable
  - Simply not enough experience yet
- Lapses
  - Pre-funding has the potential of being lapse-supported
  - Early policy pricing assumed ultimate lapse rates of >5%; lapse experience running at about 1%
  - However, many models seemed to ignore improved morbidity with lower lapses
  - Pricing in U.S. today assumes minimal ultimate lapses
- Economic assumptions
  - Critical given long-term nature of the business
  - Recent interest rate environment is forcing carriers to re-price their products using much lower rates



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## Assumptions That Help Drive Down Premium Rates

- Recognition of “salvage” value (mostly for increasing benefits)
  - Especially for 5% compound inflation benefits, where actual cost of care/inflation is running at a slower pace than 5%
- Morbidity improvement, though normally capped and normally used with mortality improvement
- Spouse discounts are high (high mortality may now be a concern if 100% of dying spouse’s reserve is released)



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## Pricing Challenges

- Data challenges
- Significant strain
  - Reserves, capital, commissions, issue expenses
- Traditional models may not capture all risks
  - Stochastic models can be used to analyze unscheduled premium rate changes, policyholder behavior, interest rate scenarios



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## Typical LTC Product Sold in 2011

- Individual (not true group)
- Average issue age 58.1 (average 57-58 since 2006)
- Expense reimbursement
- Tax-qualified
- Fully comprehensive (HHC + SNF + ALF)
- 90-day elimination period
- 3-year benefit period
- \$150 daily benefit
- 5% compound inflation protection
- Average premium is \$2322

BrokerWorld LTC Survey Data 2011

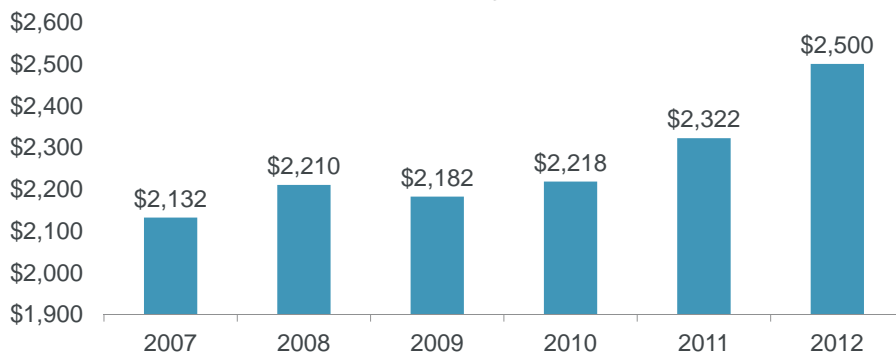


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## Policy Premiums – A Look Back

Individual Policy Premium

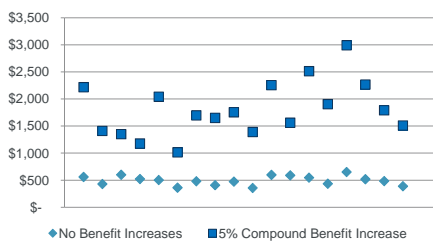


BrokerWorld LTC Survey Data 2007-2011  
US Individual LTC Insurance Annual Review 2012

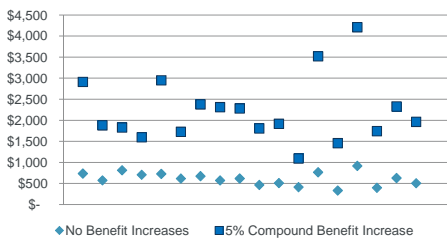


## Premium Comparisons: 3-Year Benefit Period

Single, age 50, 90-day elimination period, 3-year benefit period, best UW class



Married couple, age 50, 90-day elimination period, 3-year benefit period, best UW class



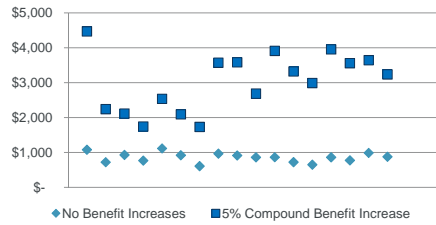
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And RGA Proprietary Data



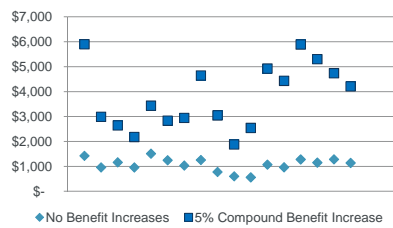


## Premium Comparisons: Lifetime Benefit Period (for reference only – most carriers have pulled this benefit option)

**Single, age 50, 90-day elimination period, lifetime benefit period, best UW class**



**Married Couple, age 50, 90-day elimination period, lifetime benefit period, best UW class**



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## Changes to Underwriting and Claims

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## Underwriting

- Then
  - Originally mimicked life underwriting
    - Medical conditions sometimes favorable for LTC: expecting quick deaths without many LTC services
    - Cognitive impairment was more of a concern to LTC than to life UW
    - Rare use of medical records
- Now
  - More robust application
    - Covers automatic declinations
    - Asks for Rx and doctor information
  - Significant use of tools
    - Telephone interview
    - Medical records
    - Pharmaceutical drug check
    - Face-to-face assessments for older adults or with cause
    - Cognitive testing
  - One large carrier moving to blood and labs, similar to life UW
  - Many carriers employ nurses for UW purposes
    - Almost all carriers have 1 or more medical directors on staff



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## Claims Administration

- Complex policies and benefits require focused and experienced claim adjudicators
  - More often nurses are employed in the claim area as well
- Handling and documentation were often manual, but now more carriers use some type of computer system for LTC claims
  - Adapting life systems proved inadequate
    - Many have adapted software or built their own systems over time
- Alternatively, some carriers use a third-party administrator for their claims handling
- Care management
  - Coordination of care management with claims processing
  - Planned reviews of patient benefit qualifications
    - Periodic
    - Review in advance of “expected” length of care based on diagnosis
- Alternative plans of care are tricky



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## Impact

- Underwriting
  - Narrowed risk profile >> higher profits
    - Give discounts where appropriate
  - Reducing incidence of cognitive claims
  - Routinely focusing and responding to new “problem” areas
    - Diabetics, mental/nervous, younger ages at issue
- Claims
  - Moving away from medical necessity to mostly ADL and cognitive triggers
  - Frequent touch points with claimant to ensure continued eligibility – recoveries
  - Focus on fraud prevention



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## Reinsurance

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## Historical Reinsurance Interest

- Relatively large players
  - Cologne Re (now Gen Re)
  - Munich American Re
  - Employers Re
- Types of reinsurance
  - Coinsurance, often high quota shares with small insurers
  - Excess, such as benefits in excess of 3 years
- Relied heavily on guaranteed renewable status of the forms



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## RGA Individual Health Operation

- RGA entered the individual health marketplace approximately six years ago
- RGA brings a fresh perspective to the individual health reinsurance market
- Primary focus is on LTCI due to current market conditions
- RGA supports new business as well as in-force blocks; to date we have reviewed more than 50 different LTC in-force blocks or new business products
- RGA can provide sophisticated and detailed risk analysis and modeling
- Experienced staff and strong customer focus



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## Size of the LTC Reinsurance Market

- RGA reinsured ~13% new business premiums in 2011
- RGA reinsured ~15% new business premiums in 2012
  
- No other major reinsurers in the standalone LTC space at this time
  
- U.S. individual health YTD 4Q 2012 data
  - \$279 million net premiums
  - \$115 million first-year premium
  - 387,000+ LTC policyholders in force



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## The Future

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## What We Will Be Watching...

- Now
  - Applicants' (and agents') response to 2013 products with gender-distinct rates, tighter underwriting and higher premiums
- Later
  - The number of carriers that remain active in the market
  - New carriers entering the market
  - Will the product design change to be more affordable? Will new products be available to a broader spectrum of insureds due to underwriting?
  - Combination product market



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## Combination LTC products

### Life + Accelerated Death Benefit (+ Extended Benefit)

### Annuity + Accelerated Death Benefit (+ Extended Benefit)

- The big players: Lincoln, One America, Genworth, John Hancock
  - Lots of small/medium players
- How much? Depends on who you ask...
  - LIMRA reported that in 2011 new premium of \$2.2 billion could be attributed to these types of products, representing over 72,000 new policies
    - Data is not split by type
  - LIMRA indicated that for market share based on new sales, 71% is attributable to acceleration only products
- How effective?
  - In the same LIMRA report, growth in acceleration benefit products was 66% in 2011, with a growth rate of 29% for the fully linked benefit products
- Average single premium: \$70,000; average recurring premium: \$5,400
- Average face amount (single premium): \$146, 000; recurring: \$278,000
- Single premium accounted for 39% of new sales in 2011
- Future: there is a lot of movement in this direction, mainly on acceleration benefits



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LIMRA Individual Life Combination Products 2011 Annual Review

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## Market/Industry Initiatives

- 3 in 4 Need More – “To raise national awareness of the need for each citizen to develop a long-term care plan and to educate on the private and public products and services available to them.”
  - [www.3in4needmore.com](http://www.3in4needmore.com)
- National Conversation on LTC – “A small group of industry leaders with a variety of opinions on the subject has held a National Conversation on Long-Term Care Financing. This group includes long-term care industry experts from the public policy, research, actuarial, sales and marketing, retirement, government and the insurance industry sectors. The intent of the group is to discuss comprehensive solutions to the long-term care crisis and provide well-vetted financing system approaches.” Steve Schoonveld, FSA, MAAA, Lincoln Financial Group
  - SOA Long-Term Care News newsletter, September 2012



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## Sources

- BrokerWorld magazine
  - Monthly publication advancing the practice of professionalism in the life and health insurance industry
  - Online at [www.brokerworldmag.com](http://www.brokerworldmag.com)
  - Since 1999, the July issue has included the Annual Individual Long Term Care Survey
  - The magazine has also published Group Long Term Care surveys, but not annually
- LIMRA
  - Provides its financial service company members research, consulting, assessment, development, compliance and regulatory services, and sponsors many industry conferences and meetings
  - Online at [www.limra.com](http://www.limra.com)
  - Publishes quarterly and annual reports on Individual Long Term Care and Group Long Term Care
    - Publishes periodic reports on many other insurance lines



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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**Thank you for your attention.**