The Current State of the Long-Term Care Insurance Market

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by

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LifePlans
Presentation Topics

• Current overview of U.S. LTC Insurance Market
  • Profile of Individuals Purchasing Policies
  • Product Evolution
  • Public Policy
  • Claims Experience

• Market exit among Carriers and Implications

• Challenges and Opportunities
Growth in National LTC Expenditures (billions)

- 1991: $74 with 69% growth
- 2000: $125
- 2011: $206 with 65% growth
Changes in Long-Term Care Financing Sources 1991-2011:
Growth in Public & Private Financing

Current LTC Insurance Industry Parameters (2012)

• **Individual market**
  – Roughly 5.0 – 5.5 million individual policies in force.
  – Total annualized in-force premium of over $9.5 billion.
  – Fewer than 20 companies still active in market.
  – Annual sales in 2010 were 65% lower than in 2000.
  – Sales have been flat for last three years with about 250,000 policies added each year.

• **Group Market**
  – About 2.0 – 2.5 million certificates in force.
  – Total premium of greater than $1.7 billion.
  – Slightly more than 11,000 employer groups sponsoring coverage.
  – Less than 8 insurers actively selling in the group market.
  – Over the last three years, roughly 150,000 certificates per year have been sold.
Number of insured Lives has been relatively flat since 2005

Source: NAIC LTC Experience Reports
Annual Sales of Individual LTC Insurance Policies have been declining since 2002

Group sales represent 35% to 45% of total sales between 2005-2012 (thousands)

Note: Estimates based on AHIP, LIMRA and LifePlans sales data and analysis. Beginning in 2009, LTC Partners data for annuitants included in counts.
Combination products are growing in the market (policies in force)

Note: The 2012 data is based on 30 companies reporting and no group certificate data provided. Group certificates for 2013 is estimate based on trending. Data unreported in NAIC 2013 report.
In-force Premiums by product type (billions):
There remains a great deal of opportunity in the market

Sources: NAIC, 2013, Gen Re, 2013
Note: Premium from combination products not included. In 2011 represented $2.2 billion of new premium  (Geneva Association Four Pillars Newsletter, No. 51, September 2012)
Private LTC insurance has modest penetration of population with incomes over $20,000

Source: LTC Financing Strategy Group, 2008
CHARACTERISTICS OF

PRODUCTS AND PURCHASERS
Stand-alone policies have become more comprehensive, greater benefits, and average premiums are increasing

<table>
<thead>
<tr>
<th>Policy Characteristics</th>
<th>Average for 2010</th>
<th>Average for 2005</th>
<th>Average for 2000</th>
<th>Average for 1995</th>
<th>Average for 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Type</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Nursing Home Only</td>
<td>2%</td>
<td>3%</td>
<td>14%</td>
<td>33%</td>
<td>63%</td>
</tr>
<tr>
<td>Nursing Home &amp; Home Care Home Care Only</td>
<td>92%</td>
<td>90%</td>
<td>77%</td>
<td>61%</td>
<td>37%</td>
</tr>
<tr>
<td></td>
<td>6%</td>
<td>7%</td>
<td>9%</td>
<td>6%</td>
<td>---</td>
</tr>
<tr>
<td>Daily Benefit Amount for NH Care</td>
<td>$154</td>
<td>$142</td>
<td>$109</td>
<td>$85</td>
<td>$72</td>
</tr>
<tr>
<td>Daily Benefit Amount for Home Care</td>
<td>$153</td>
<td>$135</td>
<td>$106</td>
<td>$78</td>
<td>$36</td>
</tr>
<tr>
<td>Nursing Home Only Elimination Period</td>
<td>86 days</td>
<td>80 days</td>
<td>65 days</td>
<td>59 days</td>
<td>20 days</td>
</tr>
<tr>
<td>Integrated Policy Elimination Period</td>
<td>89 days</td>
<td>81 days</td>
<td>47 days</td>
<td>46 days</td>
<td>--------</td>
</tr>
<tr>
<td>Nursing Home Benefit Duration</td>
<td>4.8 years</td>
<td>5.4 years</td>
<td>5.5 years</td>
<td>5.1 years</td>
<td>5.6 years</td>
</tr>
<tr>
<td>Percent Choosing Inflation Protection</td>
<td>92%</td>
<td>76%</td>
<td>41%</td>
<td>33%</td>
<td>40%</td>
</tr>
<tr>
<td>Annual Premium</td>
<td>$2,268</td>
<td>$1,918</td>
<td>$1,677</td>
<td>$1,505</td>
<td>$1,071</td>
</tr>
</tbody>
</table>

Source: AHIP, 2011
Across all ages premiums are rising, but largest increase is at younger ages.

Note: Between 1995 to 2000 increase in premiums due primarily to increase in policy benefits. Between 2000 – 2010, increase in premiums due to true up of pricing assumptions and move toward greater rate stability.

Premium increase 1995-2010: Age 55-64: 145% Age 75+: 84%.

Source: AHIP 2011
Younger, wealthier and employed individuals are buying policies

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<tbody>
<tr>
<td>Average Age</td>
<td>59 years</td>
<td>61 years</td>
<td>65 years</td>
<td>69 years</td>
<td>68 years</td>
</tr>
<tr>
<td>% &gt; 70</td>
<td>8%</td>
<td>16%</td>
<td>40%</td>
<td>49%</td>
<td>42%</td>
</tr>
<tr>
<td>% Married</td>
<td>69%</td>
<td>73%</td>
<td>70%</td>
<td>62%</td>
<td>68%</td>
</tr>
<tr>
<td>Median Income</td>
<td>$87,500</td>
<td>$62,500</td>
<td>$42,500</td>
<td>$30,000</td>
<td>$27,000</td>
</tr>
<tr>
<td>% &gt; $50,000</td>
<td>77%</td>
<td>71%</td>
<td>42%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Median Assets</td>
<td>$325,000</td>
<td>$275,000</td>
<td>$225,000</td>
<td>$87,500</td>
<td>N.A.</td>
</tr>
<tr>
<td>% &gt; $75,000</td>
<td>82%</td>
<td>83%</td>
<td>77%</td>
<td>49%</td>
<td>53%</td>
</tr>
<tr>
<td>% College Educated</td>
<td>71%</td>
<td>61%</td>
<td>47%</td>
<td>36%</td>
<td>33%</td>
</tr>
<tr>
<td>% Employed</td>
<td>69%</td>
<td>71%</td>
<td>35%</td>
<td>23%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: AHIP, 2011
The share of LTC sales to the middle market age 40-69 is declining

Note: Low income <33% of income distribution; Middle income = 33% - 66%; Higher income = >66%

Source: LifePlans analysis of AHIP Buyer Data, 2011
Most people buy policies to maintain lifestyle and consumption and not just to protect assets (2010)

Avoid Dependence: 18%
Protect Assets/Leave an Estate: 33%
Guarantee Affordability: 13%
Protect Living Standards: 18%
One of Other Reasons: 17%

Source: AHIP, 2011
Most people choose not to buy policies because they are viewed as too costly (2010)

- Don't Believe Insurers: 18%
- Hard to Choose Policy: 13%
- Too Costly: 61%
- Waiting for Better Policy: 20%

Source: AHIP, 2011
There has been targeted public support for the private market

• HIPAA Tax qualification status
  ▪ Deductibility of premiums for itemizers
  ▪ Few people benefit because of 7.5% AGI threshold

• Partnership Programs
  ▪ Purchasers of LTCI can access Medicaid without having to spend-down assets
  ▪ 45 states participate
  ▪ Little knowledge of the program: <25% of random sample age 50 and over knew about program
  ▪ 45% indicated they would be more likely to purchase LTCI if state had a Partnership Program

• Many states have tax incentives for purchase of LTCI
  ▪ Benefits too small to make much of a difference

• Some potential off-sets due to some level of Medicaid crowd-out
CLAIMS EXPERIENCE
Most LTC claimants are well served by companies when it comes to claims payments

- By 2012 $78 billion in incurred claims and annual incurred claims approaching $8 billion.

- Data suggests that roughly 95% of all claims are paid.

- Of people receiving claims payments, 94% had no disagreement with the insurer and 3% had a disagreement that was resolved satisfactorily.

- Vast majority of claimants indicate that policy benefits met their care needs; 90% felt their policy provided flexibility in service choice.

- The insurance covers a significant percentage of the daily costs of care -- (between 72% and 98%).

- Half of claimants felt that in the absence of their policy, they would have to seek institutional care or would not be able to afford service levels.

- Most people have no disagreement with their company at claim time (94%), and the majority (77%) do not find it difficult to file a claim (77%).

Source: U.S. Department of Health and Human Services, 2010
Proportion of claimants who say that the LTC benefit is meeting their care needs

Note: Almost all issues mentioned relate to service provision and not insurance benefits.
Claims experience is deteriorating in recent years:
Industry Actual to Expected Annual Incurred Claims, 2009-2012

Source: NAIC Experience Reports, 2012
RECENT TRENDS AND OPPORTUNITIES
Roughly 20 companies are still selling a meaningful numbers of policies; in 2002, AHIP reported 102 companies selling policies

<table>
<thead>
<tr>
<th>Currently Selling</th>
<th>Closed Blocks</th>
</tr>
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<tbody>
<tr>
<td>Auto-owners Insurance Group</td>
<td>Unum Life Insurance Company of America</td>
</tr>
<tr>
<td>Genworth Life Insurance Company/ Genworth Life Insurance Company of NY</td>
<td>First Unum Life Insurance Company</td>
</tr>
<tr>
<td>John Hancock (Individual Policies)</td>
<td>Metropolitan Life Insurance Company</td>
</tr>
<tr>
<td>Bankers Life &amp; Casualty Company</td>
<td>John Hancock Group</td>
</tr>
<tr>
<td>Transamerica Life Insurance Company</td>
<td>Metlife Insurance Company of CT</td>
</tr>
<tr>
<td>Country</td>
<td>Continental Casualty Company</td>
</tr>
<tr>
<td>Life Secure</td>
<td>Prudential Insurance Company of America</td>
</tr>
<tr>
<td>State Farm Mutual Auto Insurance Company</td>
<td>RiverSource Life Insurance Company</td>
</tr>
<tr>
<td>New York Life Insurance Company</td>
<td>Allianz Life Insurance Company of North America</td>
</tr>
<tr>
<td>Northwestern Long Term Care Insurance Company</td>
<td>Senior Health Insurance Company of PA</td>
</tr>
<tr>
<td>Mutual of Omaha Insurance Company</td>
<td>Penn Treaty</td>
</tr>
<tr>
<td>Massachusetts Mutual Life Insurance Company</td>
<td>Aetna Life Insurance Company</td>
</tr>
<tr>
<td>Medamerica Insurance Company of NY</td>
<td>Lincoln Benefit Life Company</td>
</tr>
<tr>
<td>Insurance Company of NY</td>
<td>Union Security Insurance Company</td>
</tr>
<tr>
<td>Knights of Columbus</td>
<td>Time Insurance Company</td>
</tr>
<tr>
<td>Thrivent Financial For Lutherans</td>
<td>Ability Insurance Company</td>
</tr>
<tr>
<td>United Security</td>
<td>United Teacher Assoc Insurance Company</td>
</tr>
<tr>
<td>Lincoln Financial Group</td>
<td>American Family Life Assurance Company of Colorado</td>
</tr>
<tr>
<td>State Life</td>
<td>Monumental Life Insurance Company</td>
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<tr>
<td>United SPDA/LTC</td>
<td>Kanawha Insurance Company</td>
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<td></td>
<td>CUNA Mutual Insurance Society</td>
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<td></td>
<td>Physicians Mutual Insurance Company</td>
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<td></td>
<td>Provident Life &amp; Accident Insurance Company</td>
</tr>
<tr>
<td></td>
<td>WEA Insurance Corp</td>
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<tr>
<td></td>
<td>Guarantee Trust Life Insurance Company</td>
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<tr>
<td></td>
<td>Southern Farm Bureau Life Insurance Company</td>
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<tr>
<td></td>
<td>WEA Insurance group is still marketing a small number of</td>
</tr>
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<td></td>
<td>Partnership policies.</td>
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</tbody>
</table>
Most policies are now administered by companies no longer in the market and these companies have less favorable claims experience.

Source: Analysis of 2009 and 2010 NAIC Experience Exhibit Reports
Trends in factors affecting profitability have been very unfavorable throughout the decade

• Since 2000, all major determinants of premium and product profitability have been going in the wrong direction:
  ▪ interest rates are significantly lower than what was priced for,
  ▪ voluntary lapse rates are lower than for any other insurance product,
  ▪ morbidity is somewhat worse than expected and
  ▪ mortality is actually improving.

• For these reasons, the prior decade saw a major exodus of companies from the market, as returns on the product have been significantly below expectation.
Pricing LTC Insurance......

"Oh, if only it were so simple."
Distribution Challenges Persist

- The number of agents selling LTC has declined and there are fewer specialists
- The agent force is aging
- Little succession planning evident
- Consumers purchase products differently today and rely more on the internet
- Higher commissions did not appear to draw enough new agents into the market to effectively increase overall market size significantly over the past decade.
- Fewer than 10,000 agents actually sell the product and it is very unlikely that they will be able to reach the more than 155 million people in the labor force.
Single most Important Reasons that the Company left the Market: Capital Requirements and Not Hitting Profit Objectives

- Product performance - not hitting profit objects (19%)
- New senior management not interested in product (15%)
- New evaluation/assessment of the risk involved with the product and staying in the market (12%)
- Distribution issues (12%)
- Lack of confidence in ability to manage risk (12%)
- Could not get reinsurance or partner with whom to share risk (8%)
- Concern about ability to get rate increases if necessary (4%)
- Capital requirements (4%)
- Other (4%)

Source: DHHS, 2013
Circumstances under which Company would consider re-entering Market

- Regulatory changes: 36%
- Changes to distribution: 14%
- Changes to the structure of the product: 46%
- Changes in consumer attitudes: 32%
- Changes in public policy (tax policy): 32%
- Other: 46%

Source: DHHS, 2013
Most companies indicate they are very unlikely to return to the market

Source: DHHS, 2013
Key Demand and Supply Issues

Demand: Consumer

- Lack of information/shrouded attributes
- Misperceptions about need, costs, and coverage
- Myopia
- Consumer confusion/product complexity
- Mistrust of industry/contracts

Supply: Insurer

- Adverse selection
- High selling costs
- Inefficient risk-bearing: common shocks

Source: Scan Foundation, 2013
Key Demand and Supply Solutions

Demand/Consumer-related

- Simplify/standardize products
- Index premiums
- Educational campaign and warnings
- Expanded employer role
- Mandated availability
- Smart opt-out/forced-choice
- Targeted subsidy

Supply/Insurer-related

- Reinsurance pool
- Expanded employer role
- Joint marketing with health insurance

Source: Scan Foundation, 2013
Prospects for the Market and Need for “Re-Set” market

• There needs to be a market re-set because:
  
  ▪ Current strategies have not worked well in assuring broad consumer appeal and insurer enthusiasm
  
  ▪ Continued demographic trends, budget deficits and improved mortality mean the demand for long-term services and supports will only grow in the future putting at risks families and elders
  
  ▪ Need to be outward looking focus on product and distribution partnerships with public payers, providers, health plans, etc.

• LTC Carriers have amassed a wealth of experience, knowledge and expertise and are well positioned to work with new and existing partners to develop more successful strategies

• There remains a critical role for public sector support focused on spurring demand and supply.

  • LTC insurance has an important role but not likely the critical role

• Need to think through new models of public-private mechanisms to maximize the number of insured Americans