

Alternative Products



Session 15: Middle Market Success Stories

To the extent that people don't buy LTCI, how are they solving this problem when they need assistance?

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14th Annual Intercompany Long Term Care Insurance Conference

Agenda



- This session will examine the concerns and motivations of middle-income families, and potential solutions for this market.
- Three different perspective on what is working and where there are challenges:
 - Experiences from working with seniors.
 - Broader LTC marketplace issues.
 - Implications for the LTCl industry – new product ideas.

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Serving Clients – Needs and Solutions

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Defining the Needs



- People are living with complex chronic co-morbidities for many years in the community;
- Co-morbidities lead to increases in functional decline and increased need for support over time;
- Caregiver stress is real and often leads to incapacity and/or death;
- Health & social services are fragmented, disconnected and not user friendly

Defining the Need



- Costs of chronic care increase dramatically over time;
- Many items have limited or no coverage:
 - Hearing aids, glasses, dentures;
 - Limited rehab services, not individualized;
 - Prescription medication co-pays;
 - Uncovered equipment – lift chairs; home modification; car lift for wheelchair;
 - Experimental treatments.

- Care & education need to be titrated over time:
 - Patients & care givers need education to become more informed about nature, treatment & progress of disease processes;
 - medication interactions;
 - nutritional/hydration needs;
 - therapeutic activities;
 - in-home medical procedures;
 - safe physical care for lifting, transferring, bathing, etc.

- Making & keeping medical appointments – timely access; reminders; ability to be “heard” & ask questions;
- Communication among PCP & specialists;
- Limit duplication of testing;
- Advocacy for “observation” stays in hospital;
- Information about community-based services:
 - Eligibility
 - Application process
 - Transportation
 - Availability
 - Co-pays

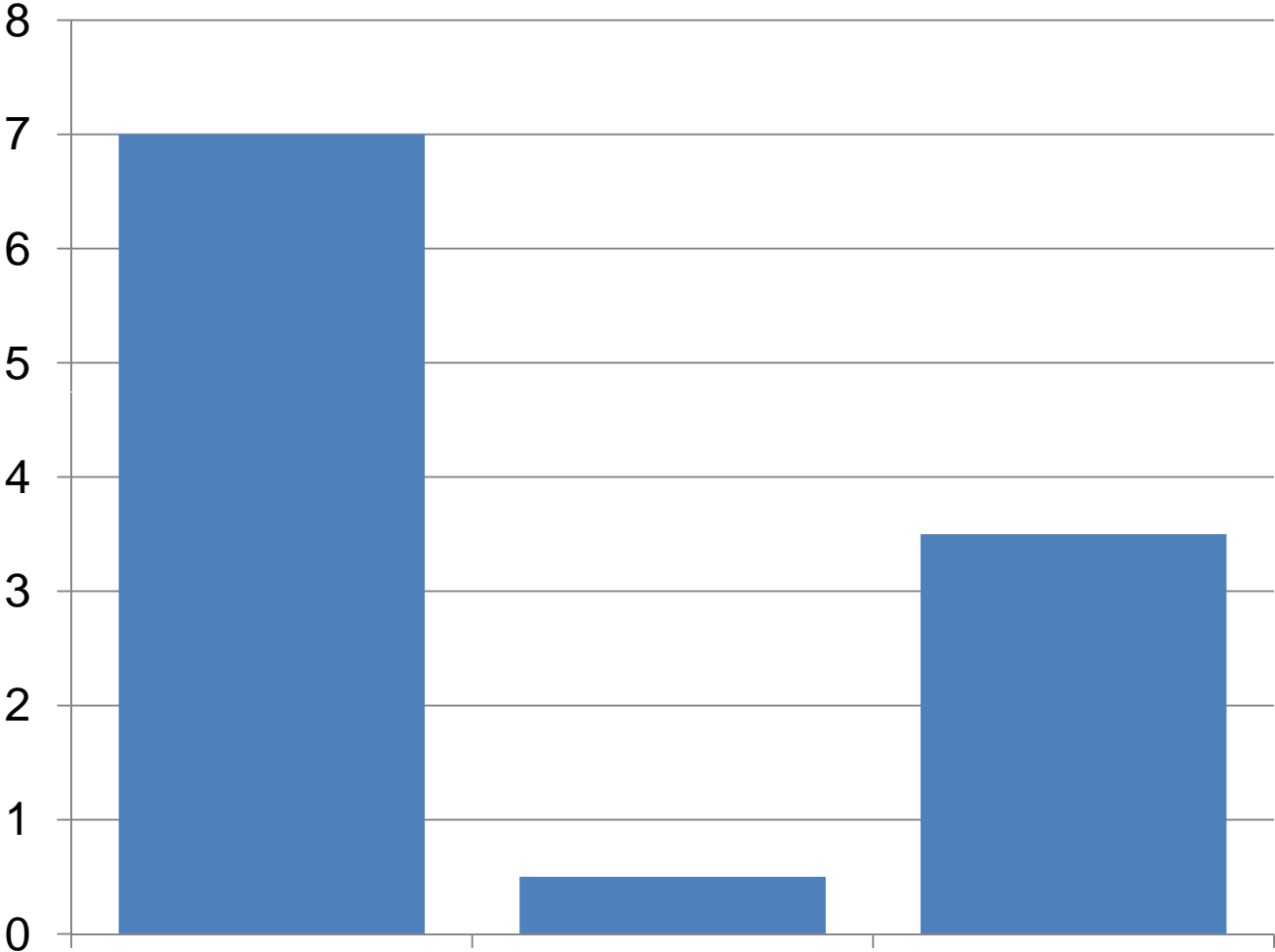
- Both experience reactions to functional and physical changes in abilities:
 - Denial – esp. around driving, hearing, vision, cognition
 - Grief
 - Depression
 - Anger
 - Frustration
 - Loss of dreams/expectations

- Medical Care management/care coordination: now featured in the ACA
- Plus non-medical interventions to person centered needs – assuring care implementation & quality assurance
- Less costly alternative to ER & hospital usage
- More comprehensive solution to systemic needs of the care recipient & caregiver;
- Integration of public & private resources for most efficient/effective usage;
- Decision support for points of transition.

Care Management



Goldilocks Effect



- Bundled with different types of policies so that people can use benefits based upon needs – i.e. disability becomes LTC;
- Custodial services need to be recognized as more than just ADLs & IADLs – i.e. caregiver support/education; transportation; safety equipment – i.e. home modifications, lift chairs, therapeutic activities;
- Agents to broaden their network of professional support services on behalf of clients.

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LTC and the Marketplace

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- National perspective on the "puzzle"
 - LTC penetration rates remain relatively low and stable despite growing older-Boomer population: Why?
 - Underwriters have been leaving the marketplace: Forever?
 - The future of stand-alone LTC policies?
 - Creative solutions: Are there any?

Defining the Middle Market



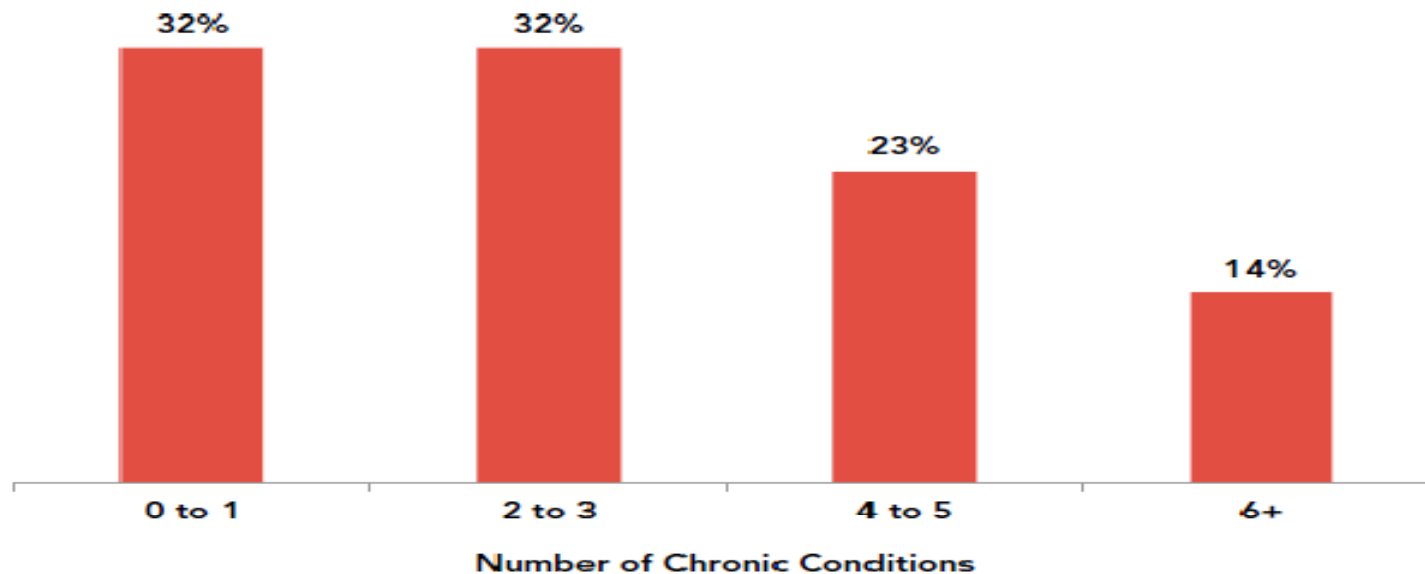
- Middle market: Defining these markets depends on:
 - Pre-retired
 - Retired

MCC: The Gateway to LTC Needs



“Two-thirds of Medicare beneficiaries had multiple chronic conditions”

Figure 1.2a Percentage of Medicare FFS Beneficiaries by Number of Chronic Conditions: 2010



DATA HIGHLIGHTS:

Among the 15 chronic conditions examined, the prevalence of multiple chronic conditions was high, with over two-thirds of beneficiaries having two or more chronic conditions and 14% having 6 or more chronic conditions.

More MCC = More Hospitalizations/ER/MD



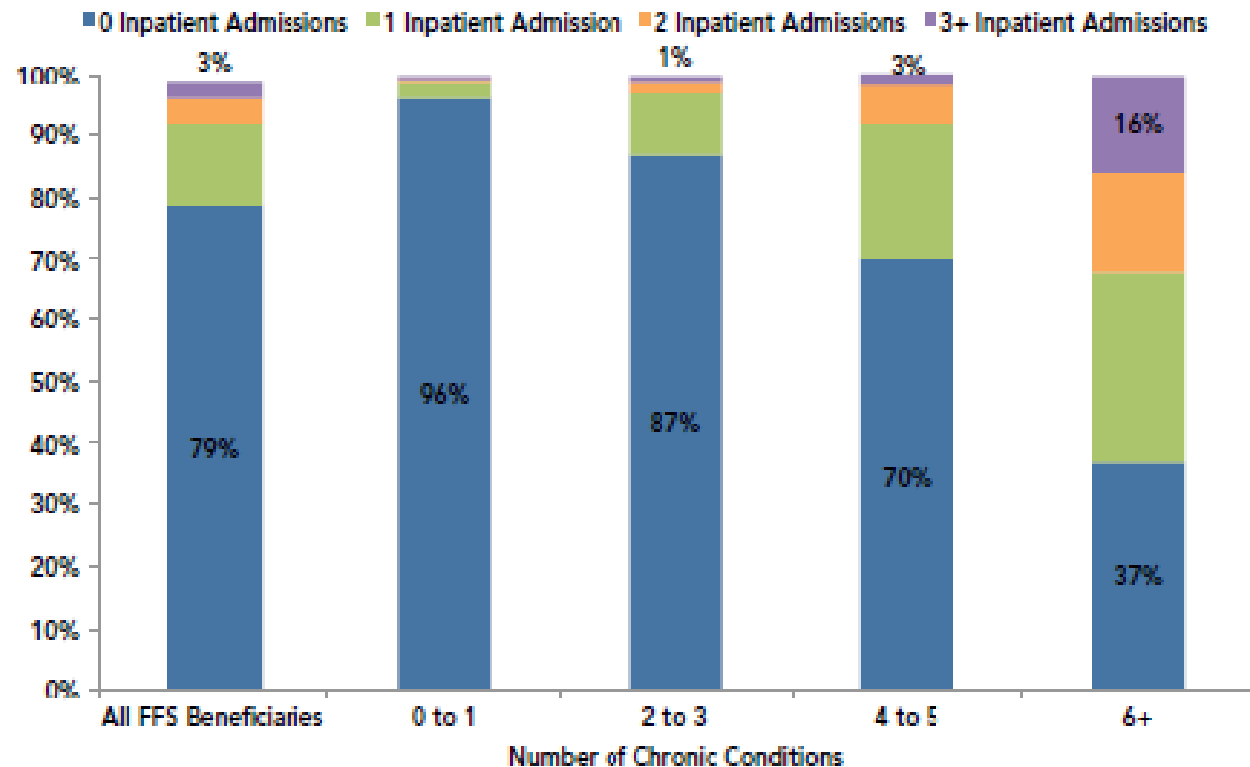
Figure 2.1 *Percentage of Medicare FFS Beneficiaries by Number of Inpatient Admissions and Number of Chronic Conditions: 2010*



DATA HIGHLIGHTS:

As the number of chronic conditions increased so did hospitalizations:

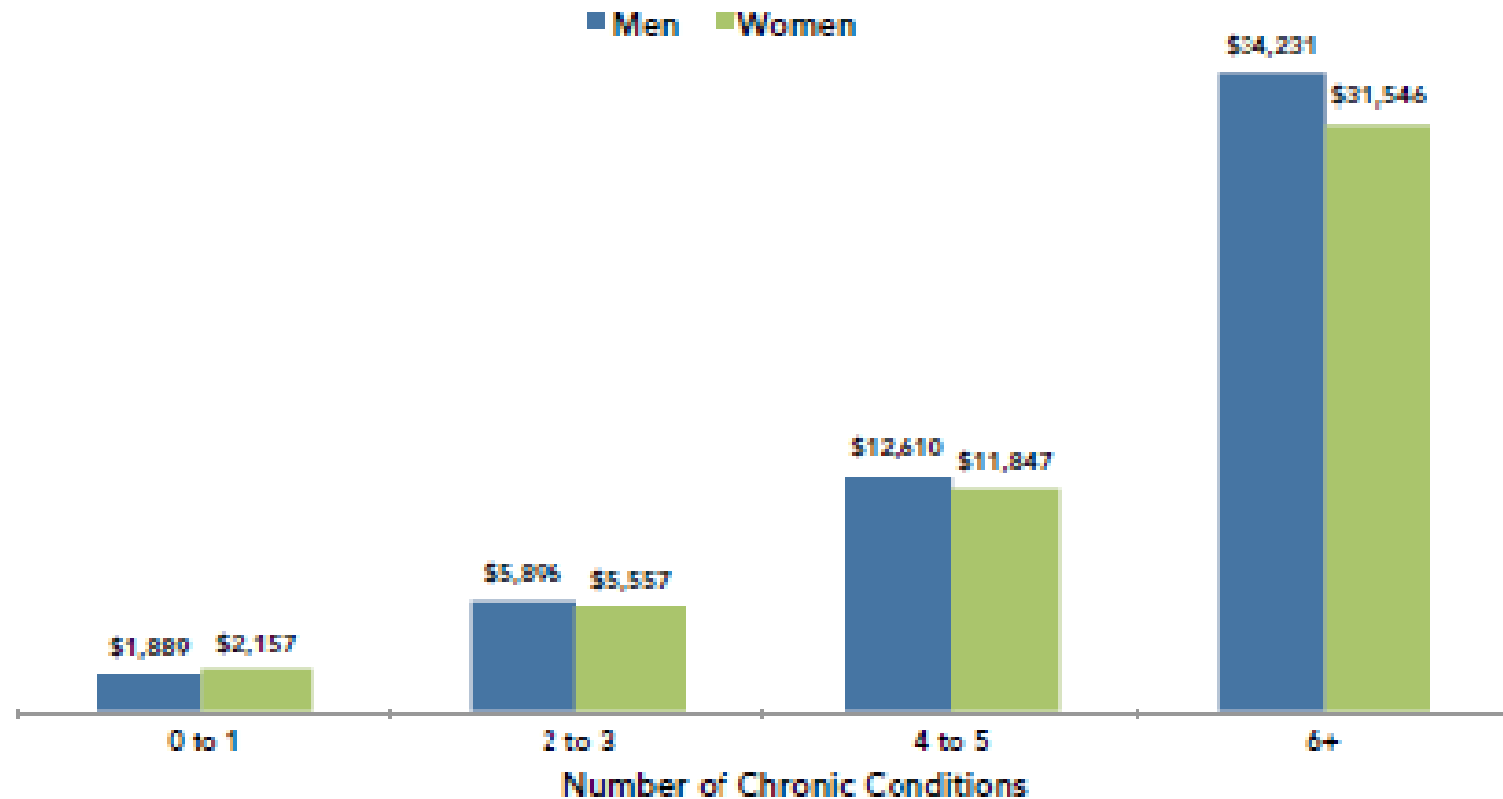
- Only 4% of beneficiaries with 0 or 1 chronic condition were hospitalized and less than 1% were hospitalized 3 or more times during the year.
- Almost two-thirds of beneficiaries with 6 or more chronic conditions were hospitalized and 16% had 3 or more hospitalizations during the year.



Costs Skyrocket as MCCs Increase



Figure 3.1c *Per Capita Medicare Spending for Medicare FFS Beneficiaries by Number of Chronic Conditions and Sex: 2010*



- Attitudinal and/or behavioral issues include
 - Lack of understanding
 - Concern about costs
 - The sky isn't falling
- But paying for LTC costs remains the #1 concern for the oldest Boomers!

What To Do



- Research: Define the LTC market better; understand it more;
- Market: Create the message that matters – to THEM!
- Policy-Public education to increase understanding of what Medicare will/will not cover

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Implications for the LTCI Industry – new product ideas

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Lifetime Probability of LTC



- The lifetime probability of having a long term care claim in an insured population can greatly vary by: issue age, gender, site of care, underwriting, marital status, expected mortality
 - The maximum probability is 64.8%
 - The minimum probability is 9.1%
 - The average probability is 34.8%

Lifetime Probability of LTC



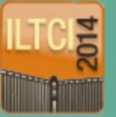
- The Lifetime probability of having a long term care claim (all sites combined, 1994GAM mortality, moderate selection) is approximately:
 - Male – 30% - 40%
 - Female – 40% - 60%

Lifetime Probability of LTC



- The Lifetime probability of having a nursing home claim (1994GAM, moderate selection) is approximately:
 - Male – 20% - 30%
 - Female – 30% - 45%

Lifetime Probability of LTC



- The Lifetime probability of having a home care claim (1994GAM, moderate selection) is approximately:
 - Male – 15% - 25%
 - Female – 15% - 30%

What makes an efficient LTC system?



(Source: the SOA LTC Delphi Study)

Systems should incentivize :

- Family participation
- Efficiency
- Planning
- Purchasing appropriate products
- Using appropriate care settings
- Healthy lifestyles

Existing Alternative Products



- Short Term Care
 - Coverage similar to an LTC policy
 - Very limited benefits (less than one year)
 - Incentives for informal care and family participation
 - Incentives for better planning

- Combination Products
 - Annuity/LTC combination, Life/LTC combination, and Chronic Illness riders
 - Gaining market momentum
 - Incentive for better financial planning
 - Lower risk as opposed to stand-alone product
 - Mostly single premium

Existing Alternative Products



- Reverse Mortgages
 - Cash against the value of one's home
 - A creative way to fund LTC expenses
 - Will need to consider the financial/LTC needs for both spouses

- High Deductible LTC (from the SOA Delphi Survey)
 - Comprehensive Coverage
 - High elimination period to reduce cost (e.g. 1 - 3 years)
 - Health Living Credit – Incentive to keep the policy and to encourage healthy living style

- Considerations for High Deductible LTC
 - Consumer should be aware of the definition of the elimination period (i.e., service day versus calendar day)
 - How will any LTC services be financed/covered during the elimination period? I.e., personal asset and family care
 - Is there sufficient coverage after the elimination period?

- Considerations for High Deductible LTC
 - Should consider the morbidity and persistency assumptions when modeling this product
 - Other modeling considerations are similar to the traditional LTC product
 - Need to consider how to administer the long elimination period

New Product Idea – Universal LTC



- Universal LTC (from the SOA Delphi Survey)
 - A combination of term LTC insurance with an investment side fund
 - Premiums for this product will be divided into two parts

- Universal LTC (from the SOA Delphi Survey)
 - The term LTC insurance is identical to traditional LTC coverage
 - At age 65, the insured would be able to decide among several options using the proceeds of the investment accounts

- Considerations for Universal LTC (from the SOA Delphi Survey)
 - Interaction between the protection product and the investment product
 - Consumer education
 - Incentive for planning on use of asset
 - Modification of tax rules, regulations are needed

- Considerations for Universal LTC (from the SOA Delphi Survey)
 - Morbidity assumptions and consumer lapsing behavior will be different from those for the traditional product
 - Complexity in modeling the product
 - Administration will be somewhat similar to a Universal Life product

- Long Term Care Savings Fund (from the SOA Delphi Survey)
 - The fund would grow tax-free and distributions would be tax-free
 - Fund transfer from 401k or IRA
 - This product may be more appropriate for the high end market instead of the middle market

- Long Term Care Savings Fund (from the SOA Delphi Survey)
 - Mandatory LTC Health Savings Accounts
 - Funded by pre-tax contribution
 - Monthly premium would vary by income level as a percentage of wages

- Conclusions:
 - The LTC demand remains high
 - Industry and consumer would like to see innovation in products
 - Consumer will need to be educated regarding which product is more appropriate
 - Regulatory and tax rule constraints