The Current State of the Long-Term Care Insurance Market

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by

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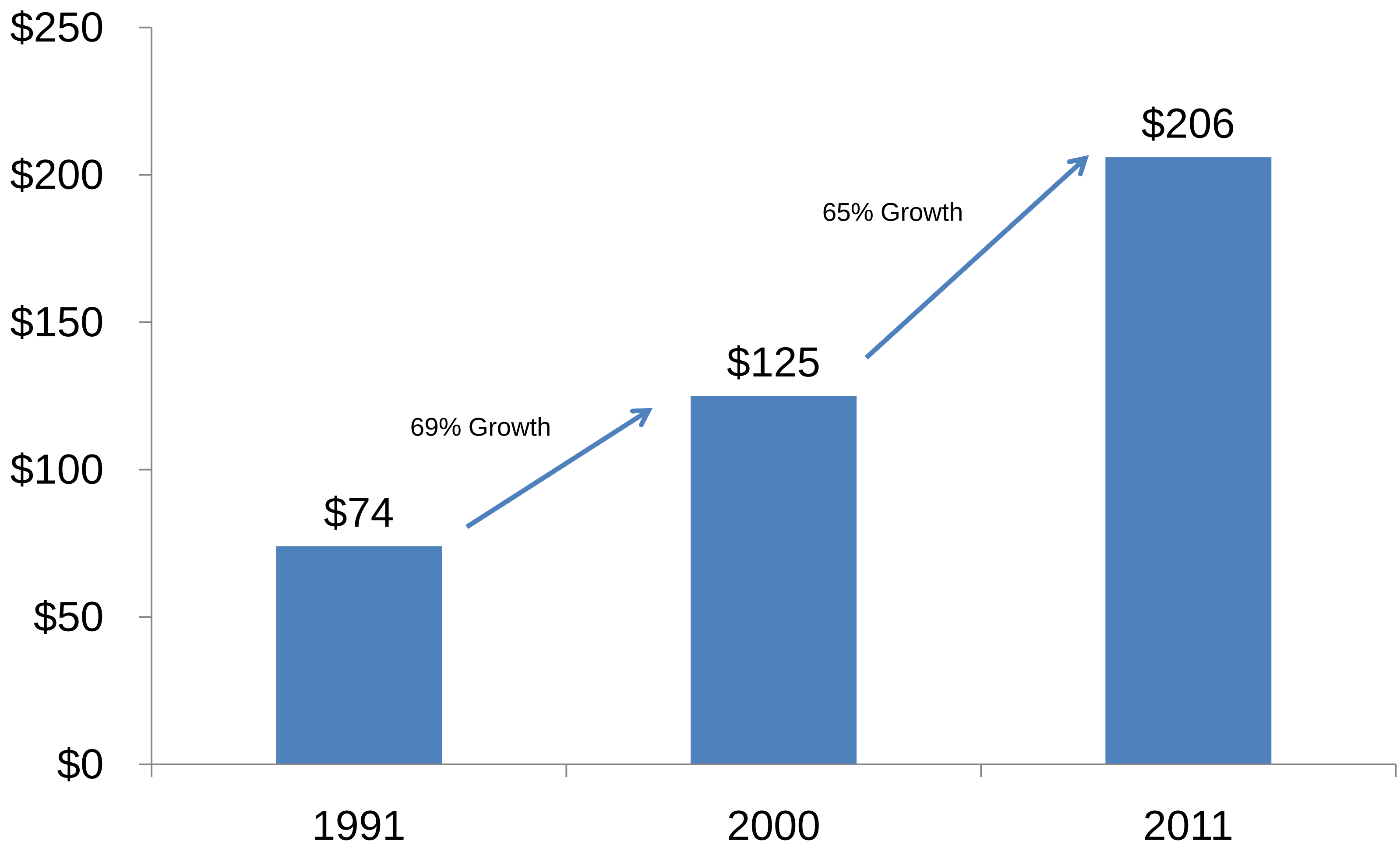
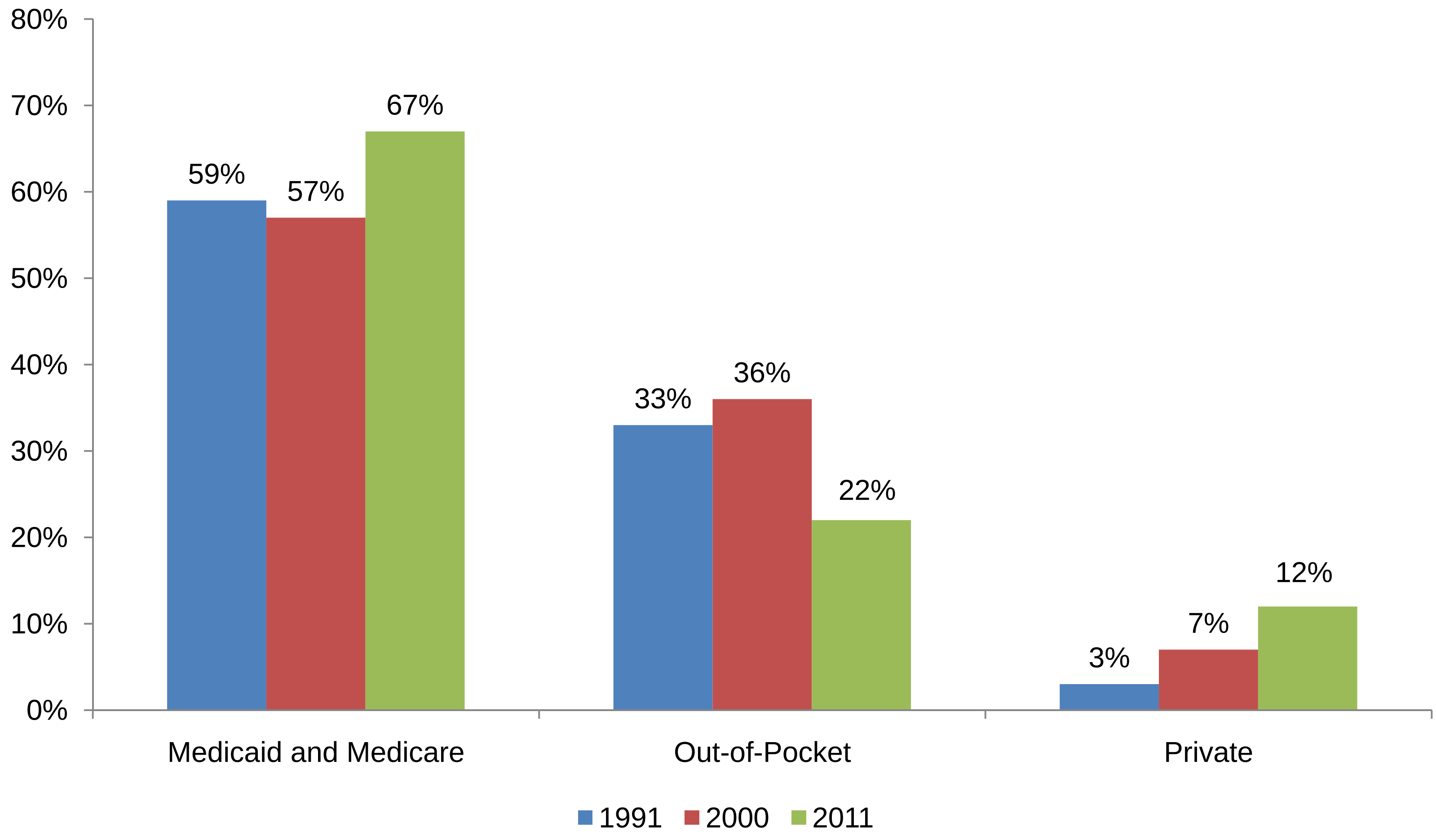
Presentation Topics

- 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)



Changes in Long-Term Care Financing Sources 1991-2011: Growth in Public & Private Financing

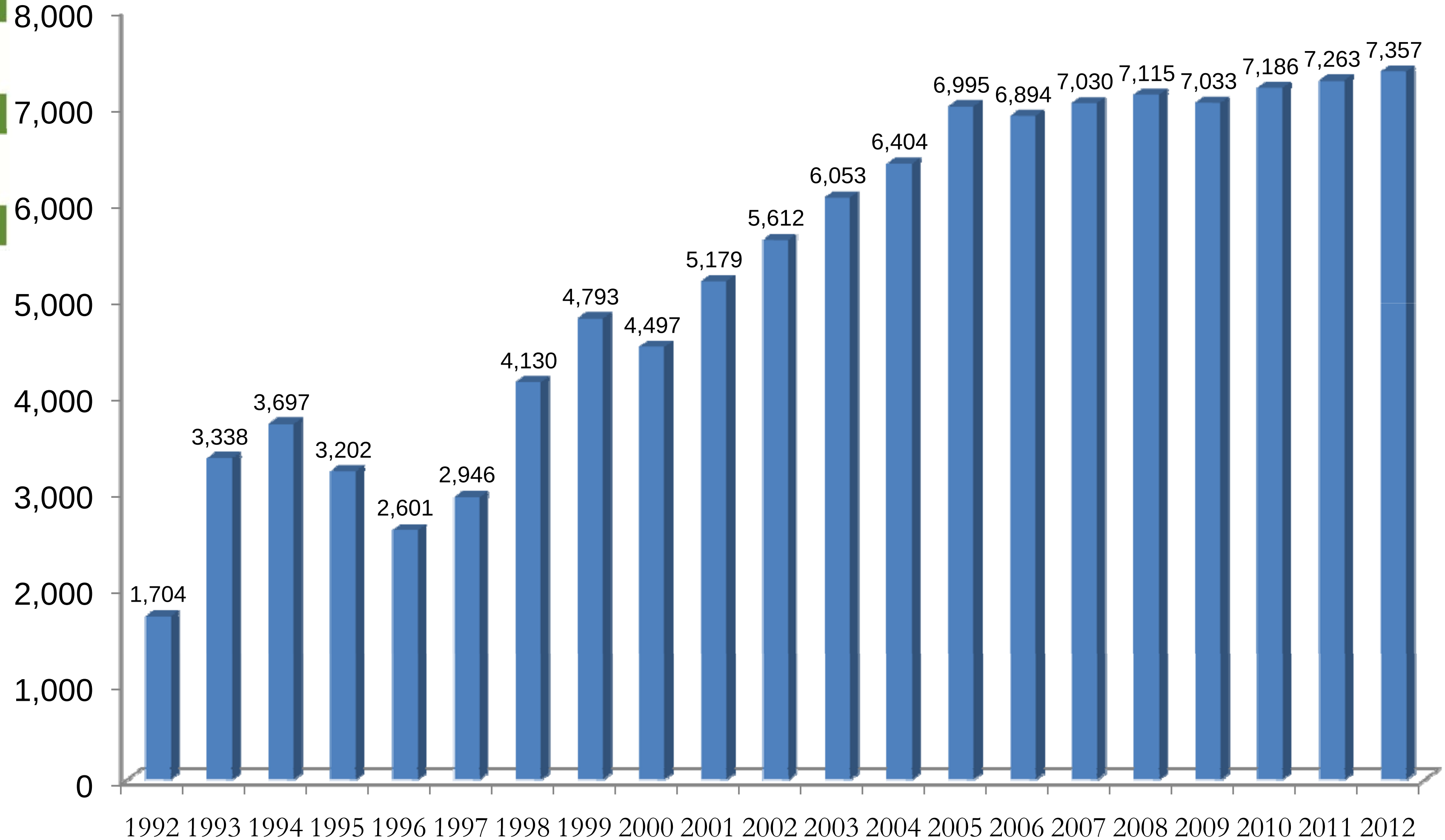


Source: SCAN Foundation, 2013; Avalere, 2007, Health Care Financing Administration, Office of the Actuary, Data from the Office of National Health Statistics in Health Care Financing Review, Fall 1994

Current LTC Insurance Industry Parameters (2012)

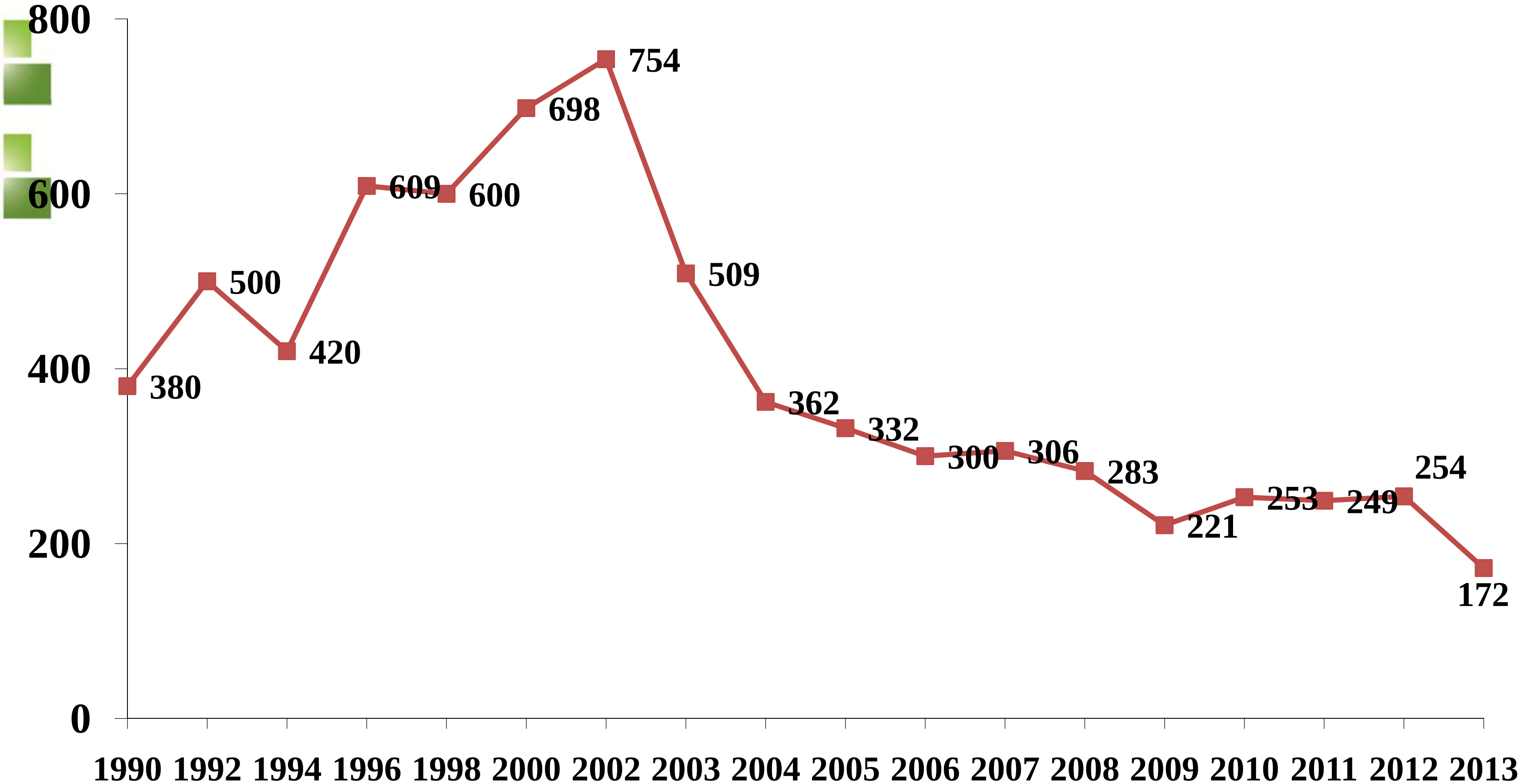
- **Individual market**
  - Roughly 5.0 – 5.5 million individual policies in force.
  - Total annualized in-force premium of over $9.5 billion.
  - Fewer than 20 companies still active in market
  - Annual sales in 2010 were 65% lower than in 2000.
  - Sales have been flat for last three years with about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



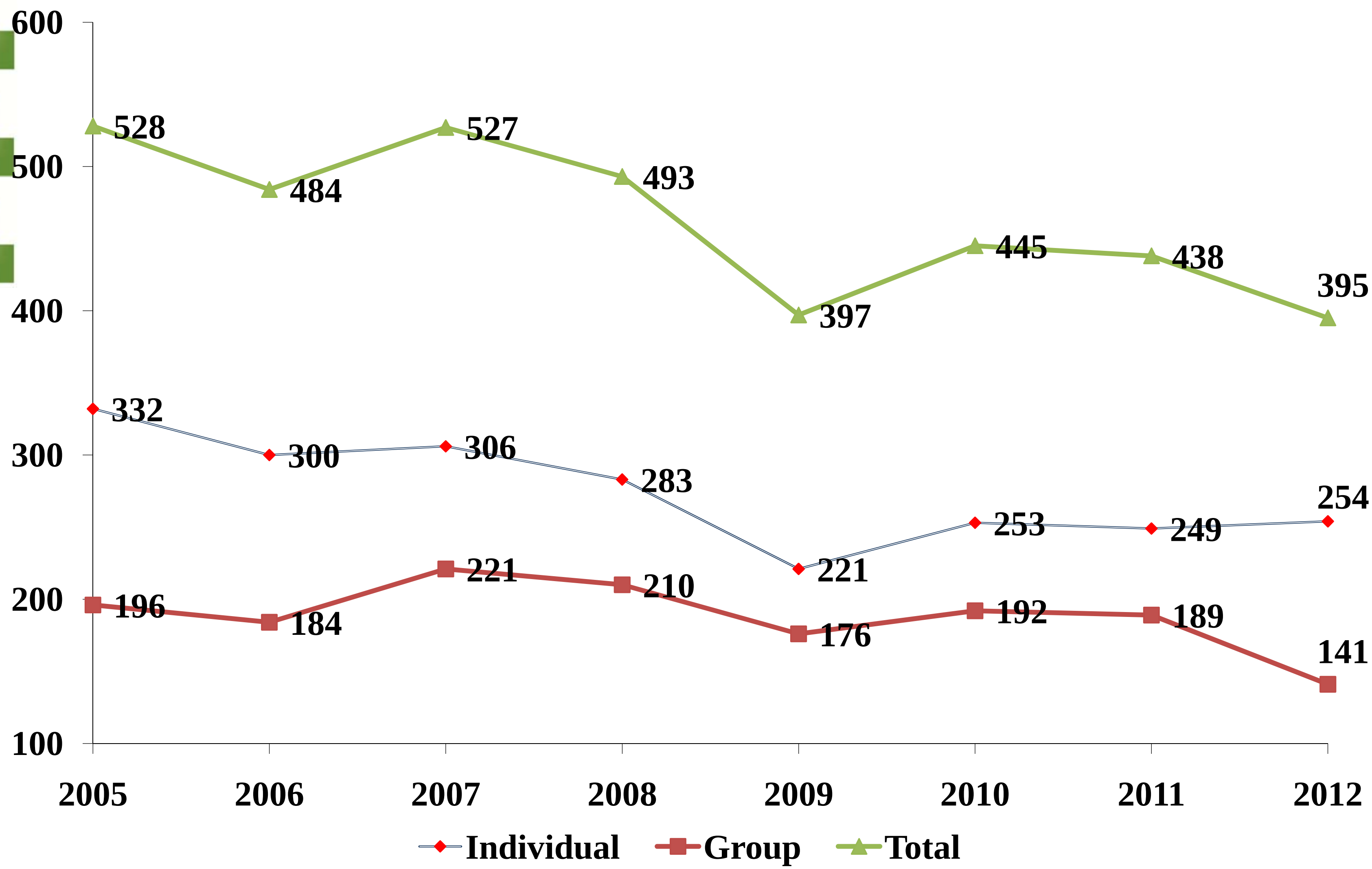
Source: NAIC LTC Experience Reports

Annual Sales of Individual LTC Insurance Policies have been declining since 2002



Note: LifePlans analysis based on AHIP, LIMRA and LifePlans sales surveys, 1990-2013.
Beginning in 2009, LTC Partners data for annuitants included in counts

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

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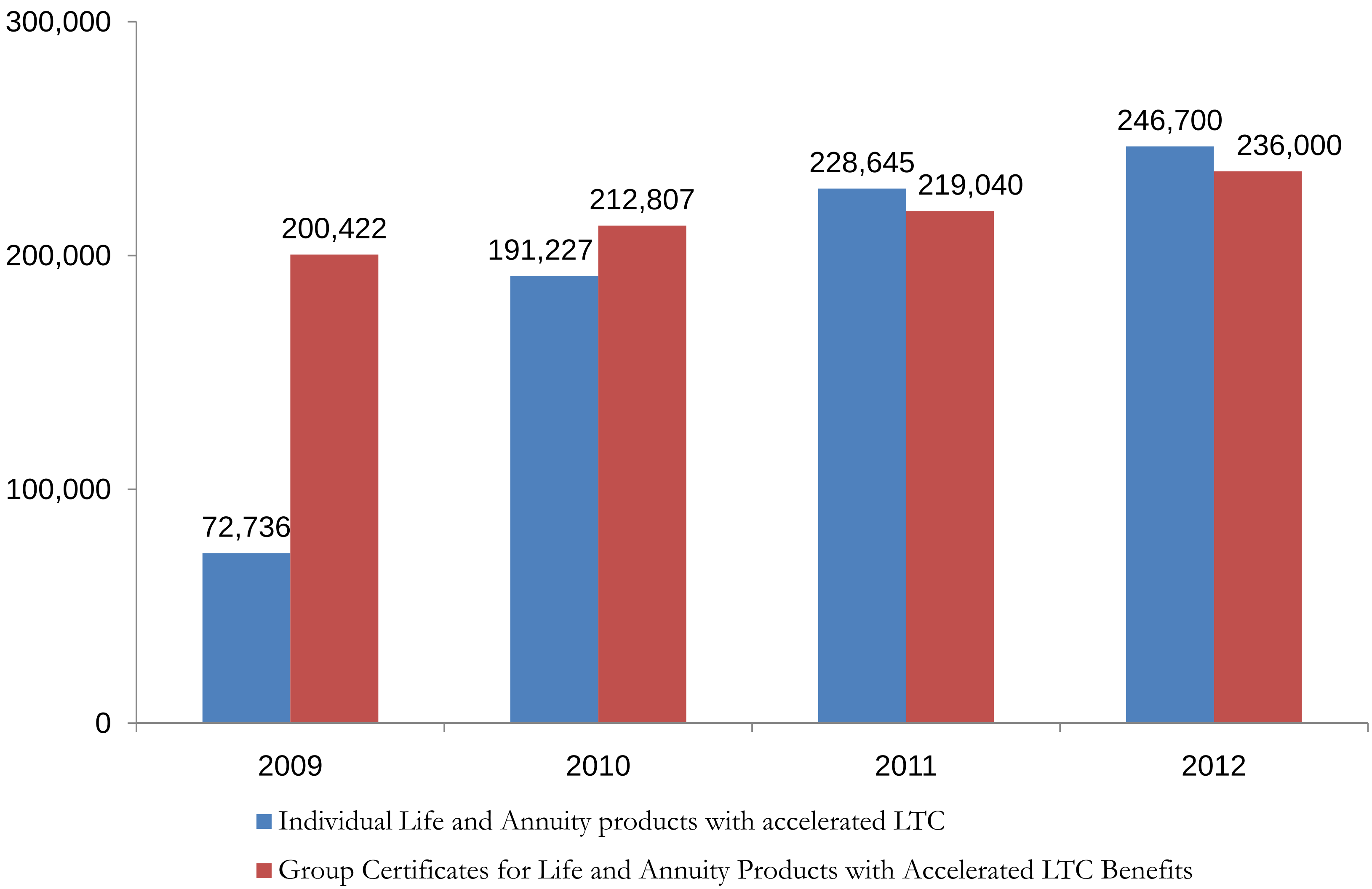
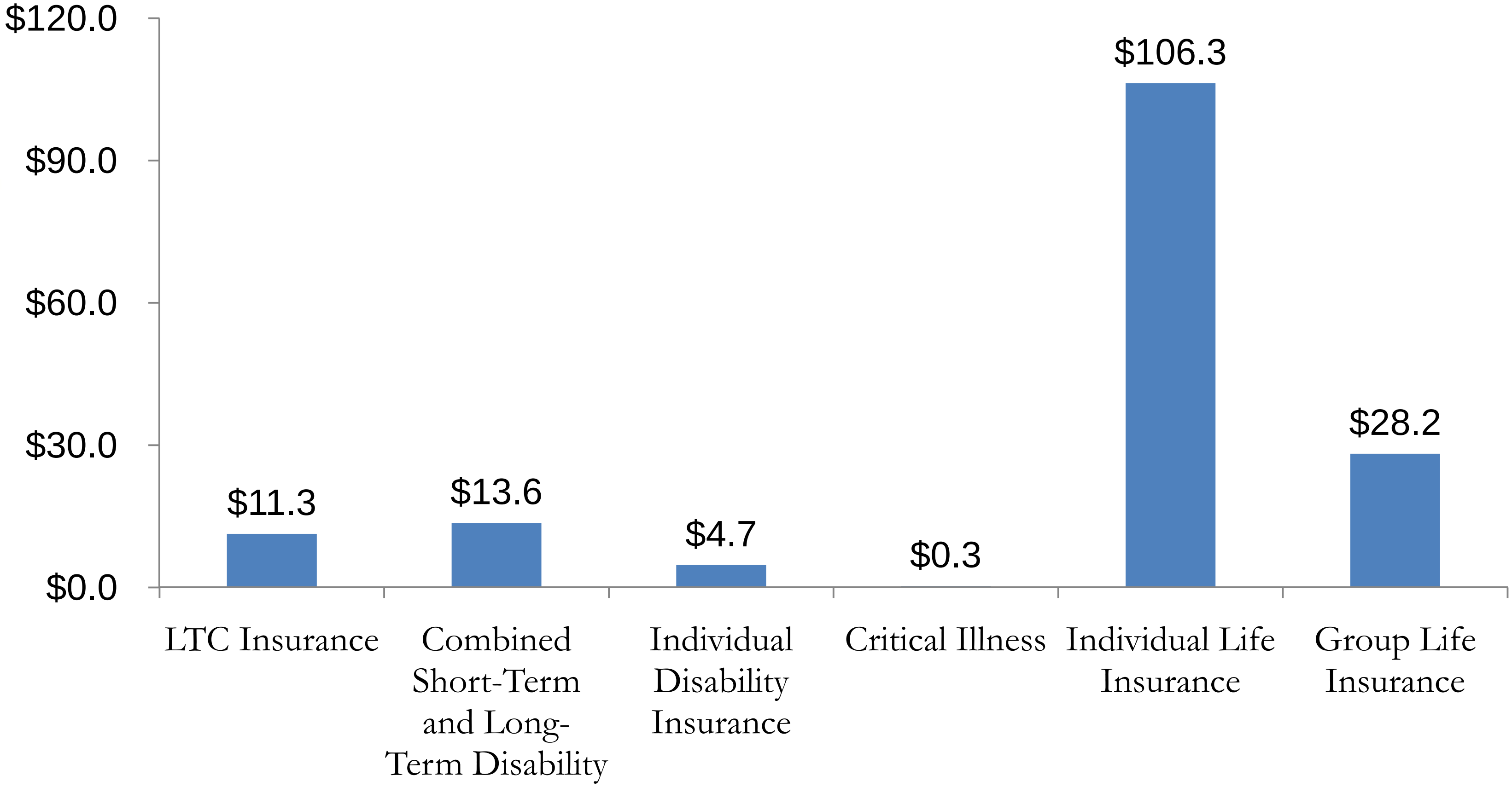
Combination products are growing in the market (policies in force)



Sources: NAIC, 2013, 2012, 2011.
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.

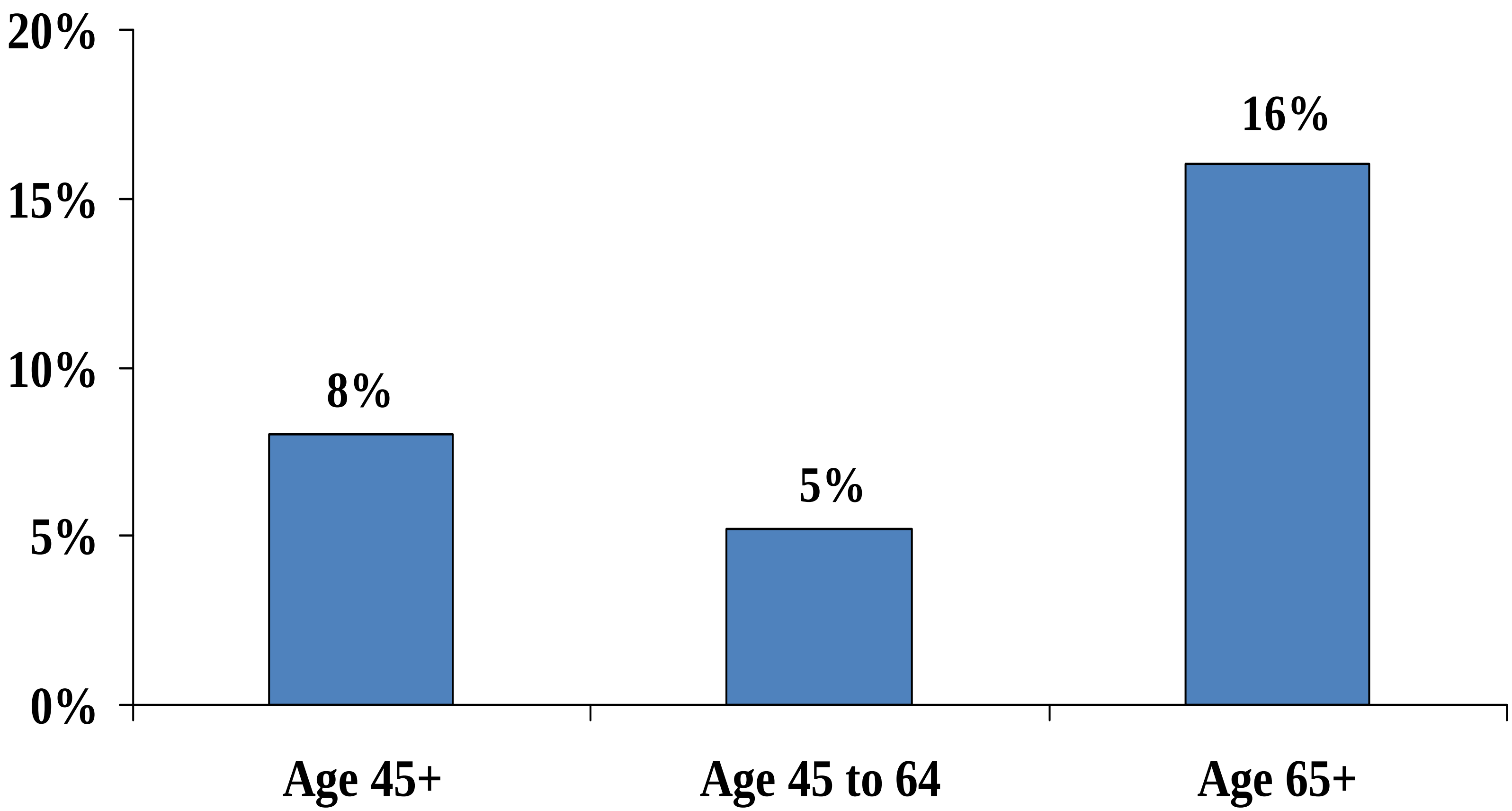
In-force Premiums by product type (billions): There remains a great deal of opportunity in the market



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

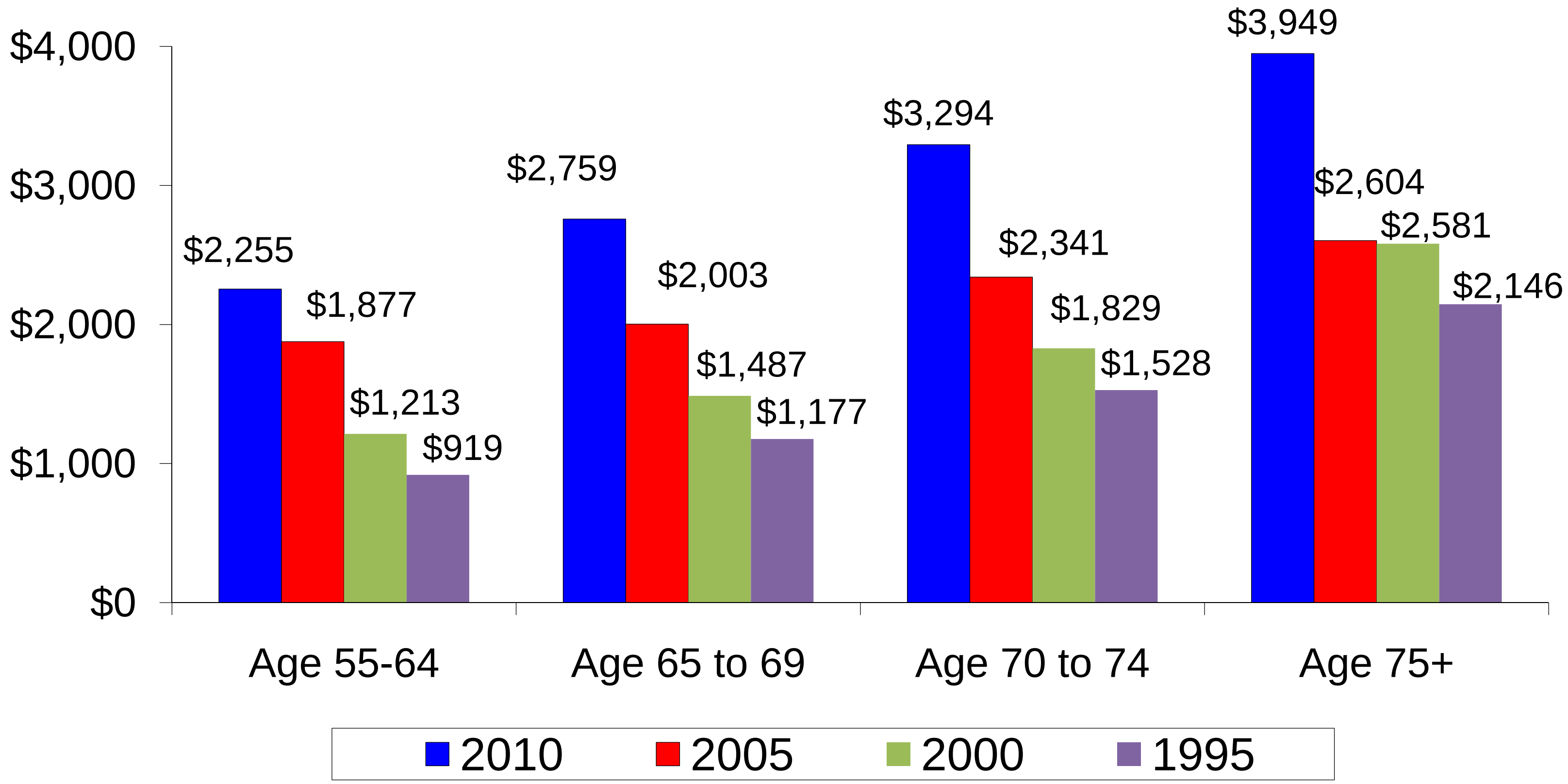
PRODUCTS AND PURCHASERS

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

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

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%.

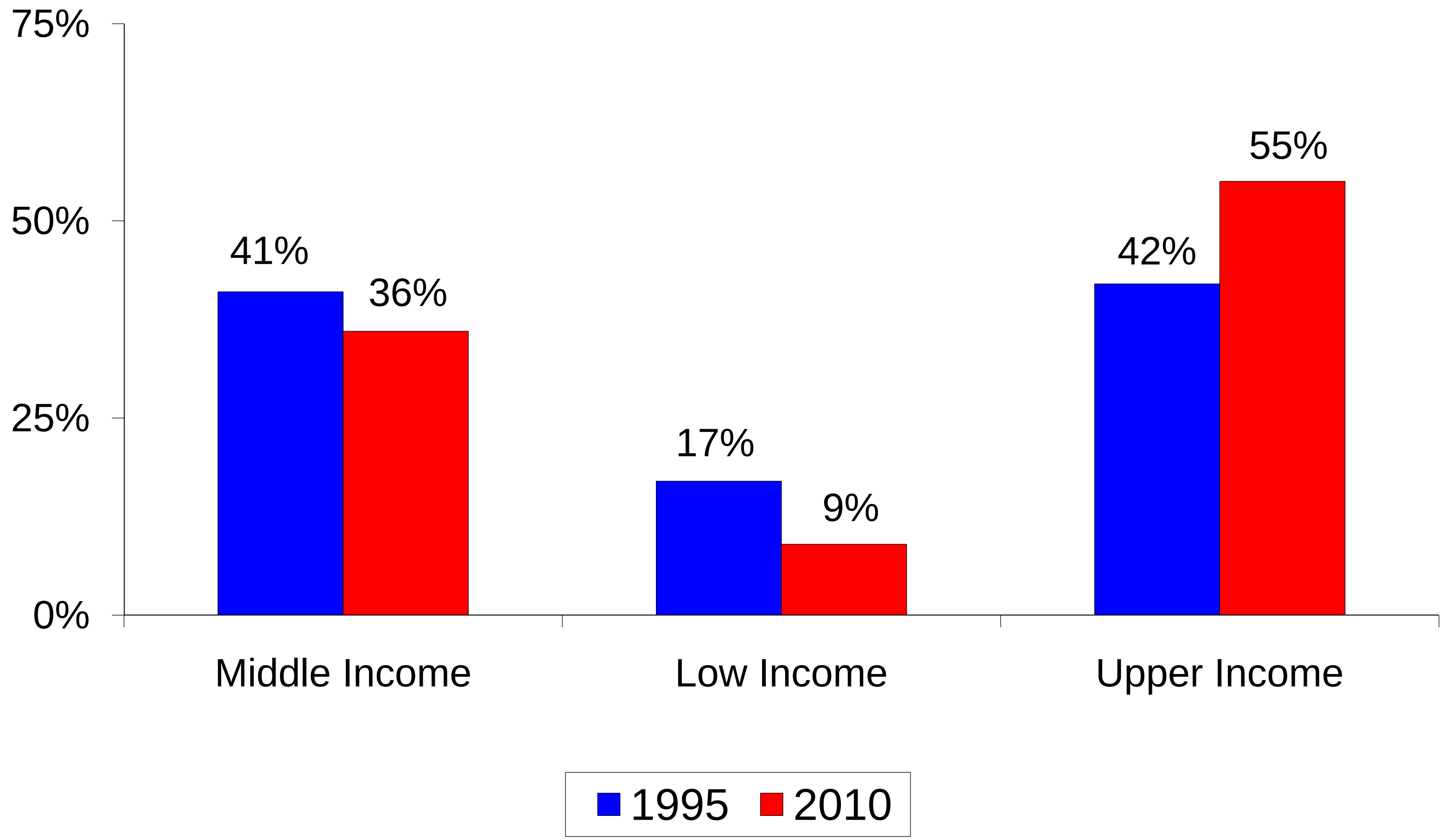
Source: AHIP 2011

Younger, wealthier and employed individuals are buying policies

Characteristic	2010	2005	2000	1995	1990
Average Age %> 70	59 years 8%	61 years 16%	65 years 40%	69 years 49%	68 years 42%
% Married	69%	73%	70%	62%	68%
Median Income % > $50,000	$87,500 77%	$62,500 71%	$42,500 42%	$30,000 20%	$27,000 21%
Median Assets % > $75,000	$325,000 82%	$275,000 83%	$225,000 77%	$87,500 49%	N.A. 53%
% College Educated	71%	61%	47%	36%	33%
% Employed	69%	71%	35%	23%	15%

Source: AHIP, 2011

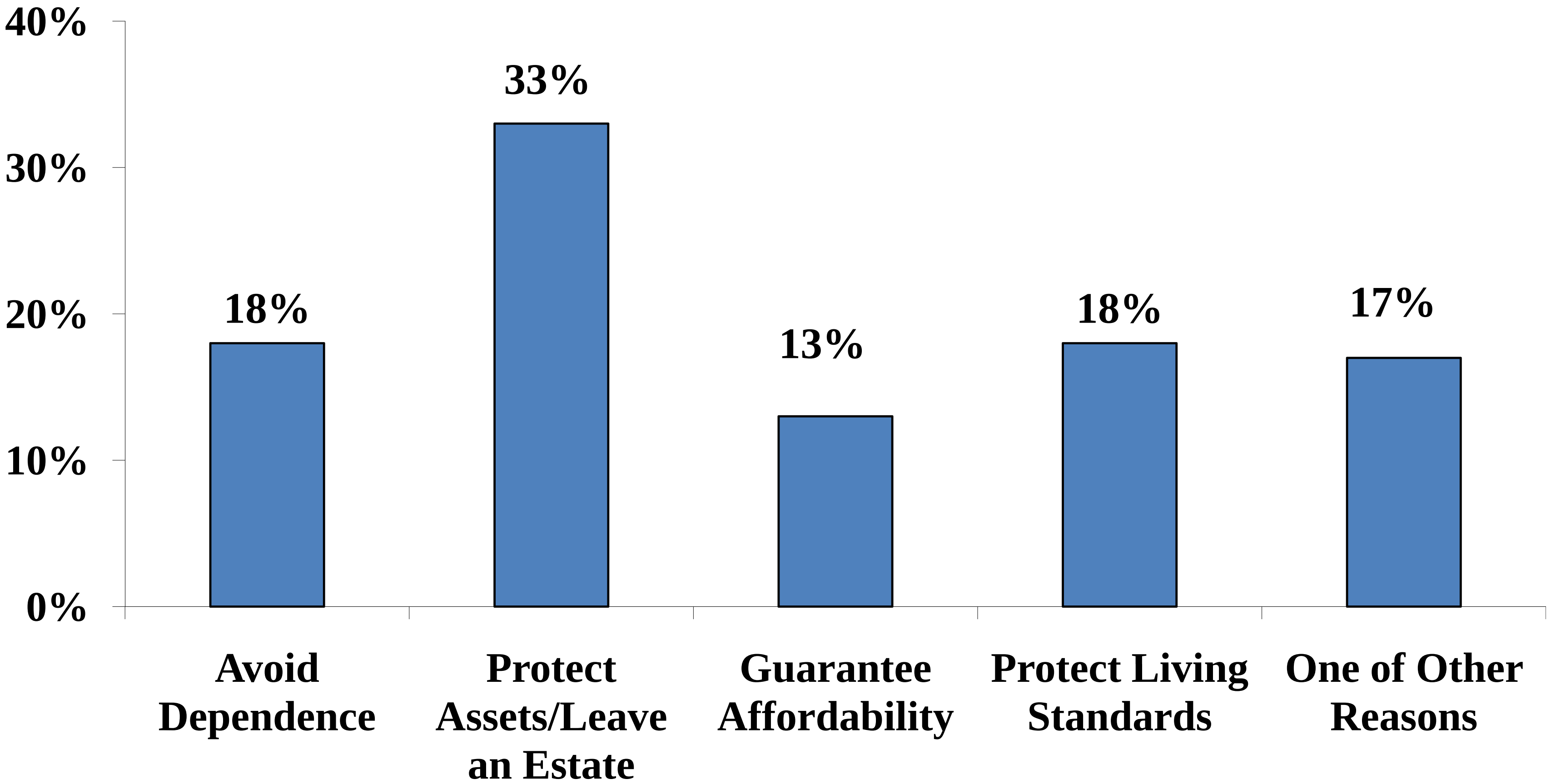
The share of LTC sales to the middle market age 40-69 is declining



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

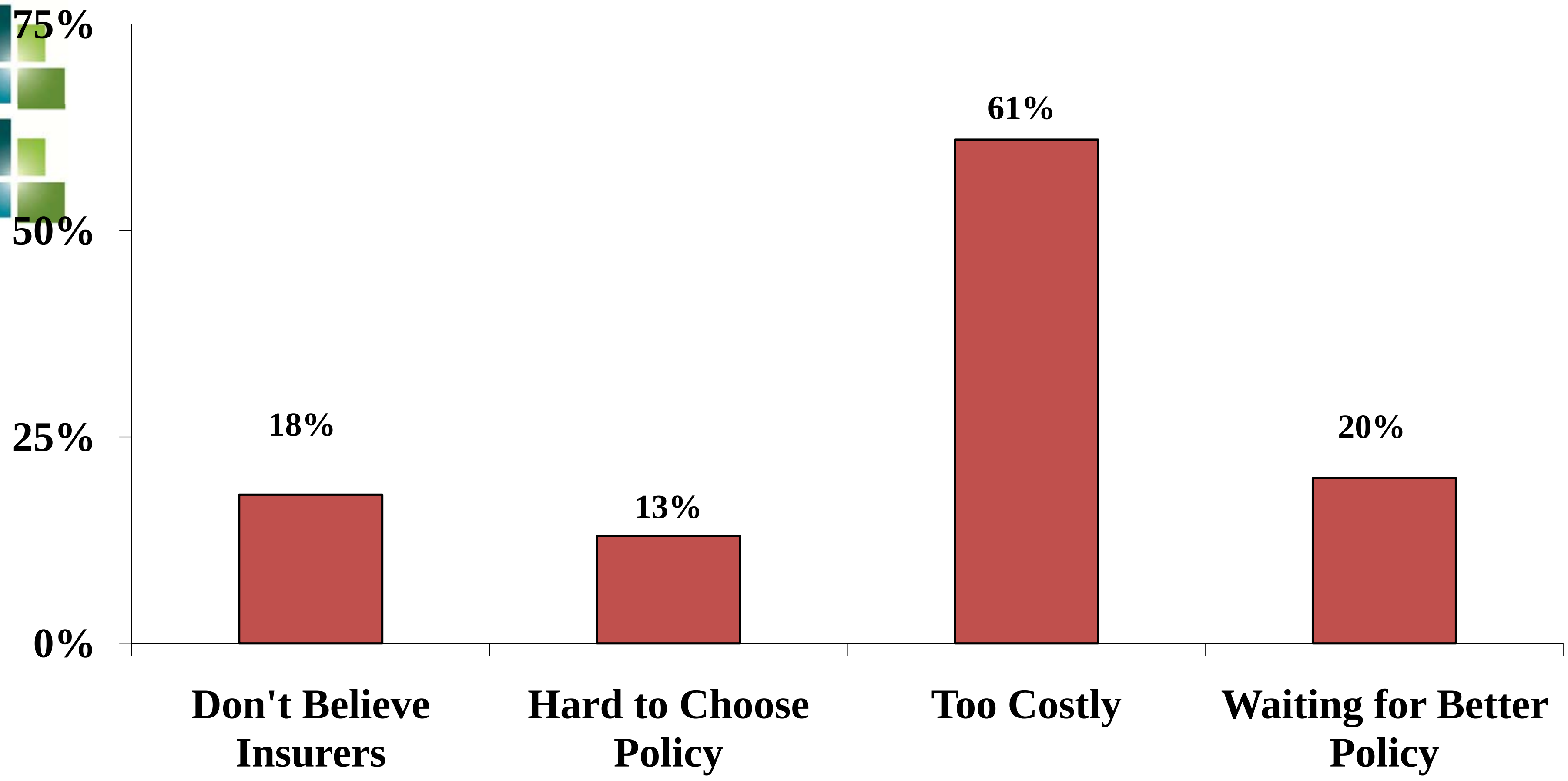
Source: LifePlans analysis of AHIP Buyer Data, 2011

Most people buy policies to maintain lifestyle and consumption and not just to protect assets (2010)



Source: AHIP, 2011

Most people choose not to buy policies because they are viewed as too costly (2010)



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

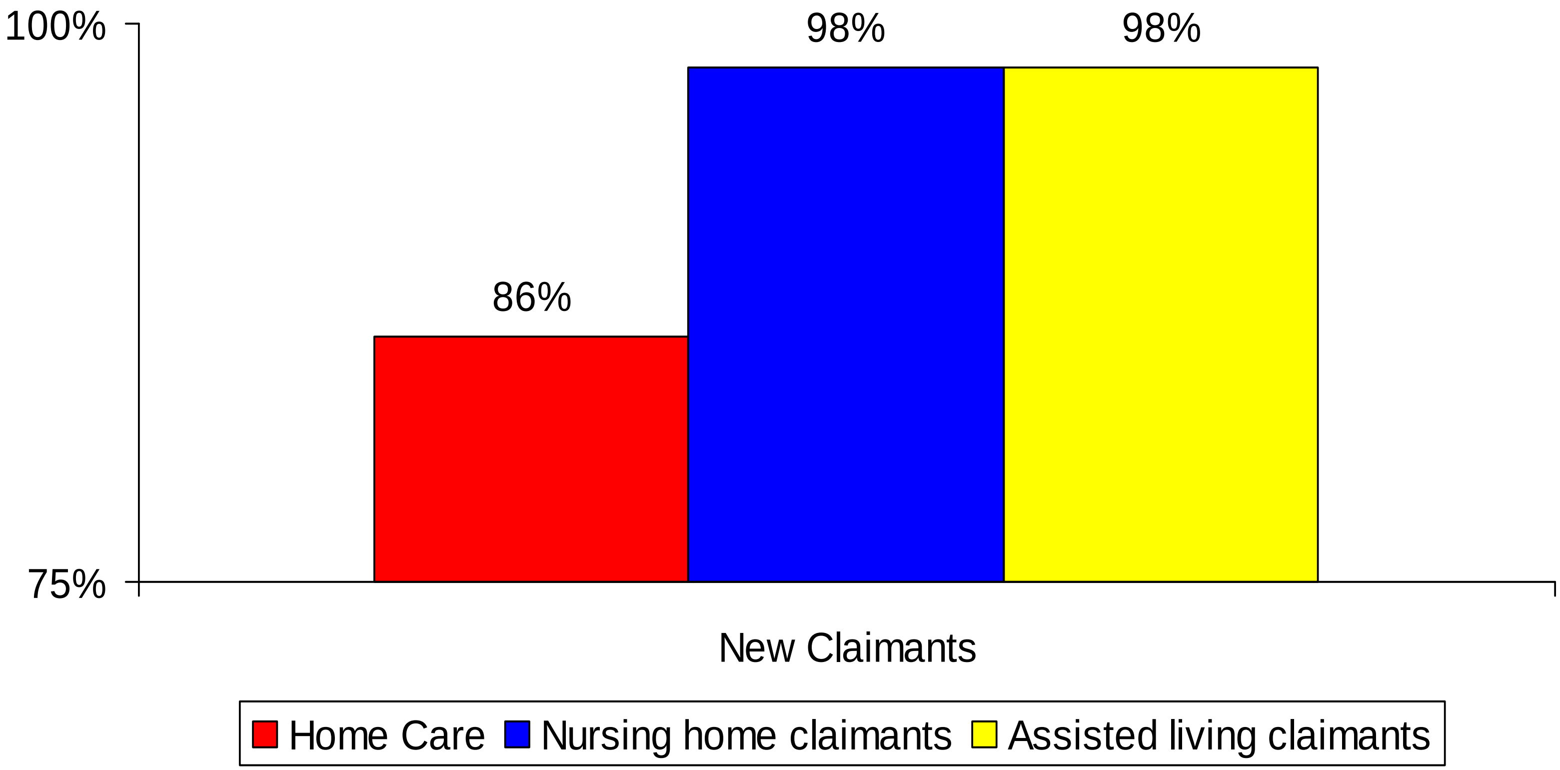
CLAIMS EXPERIENCE

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%) .

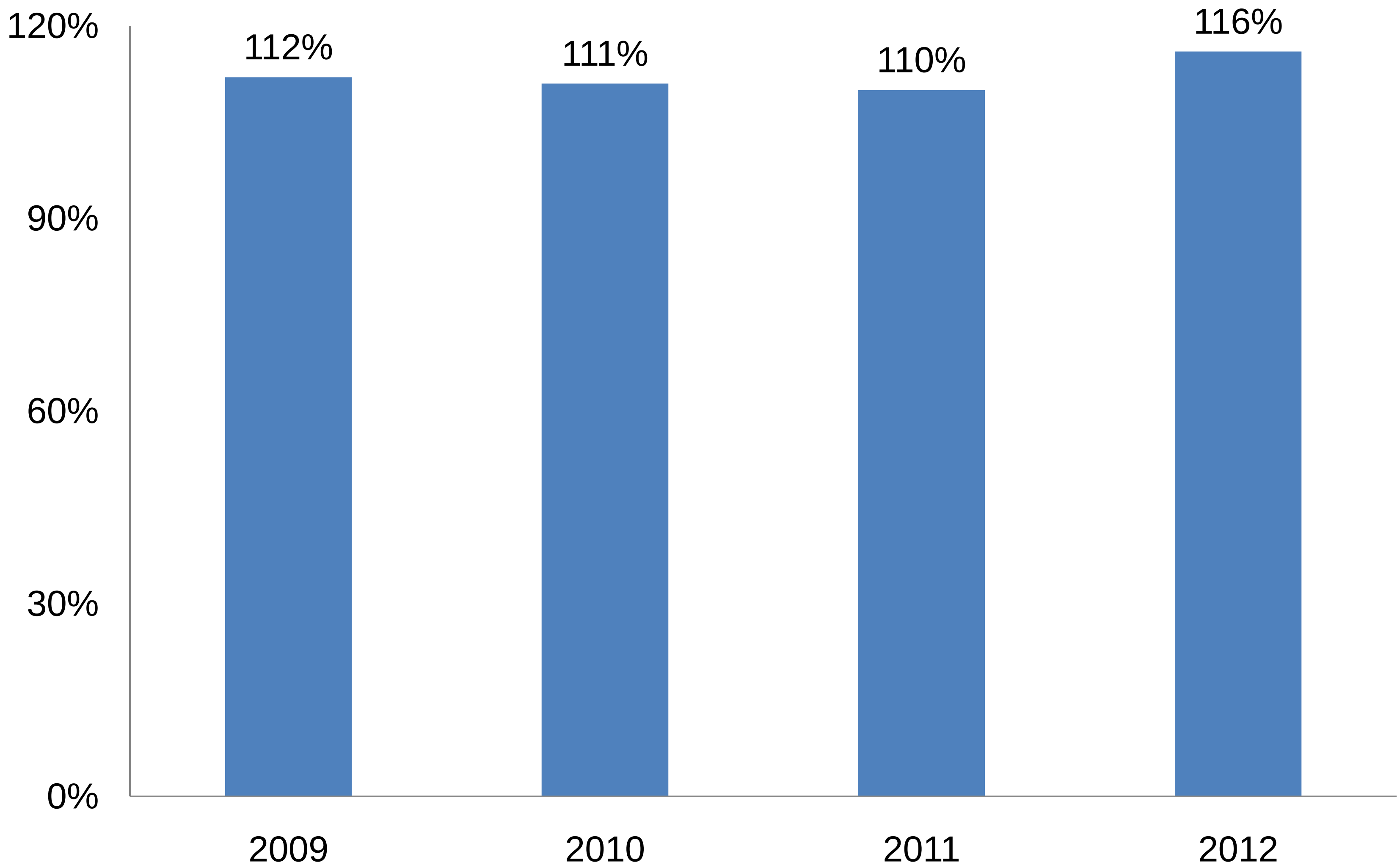
Source: U.S. Department of Health and Human Services, 2010

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



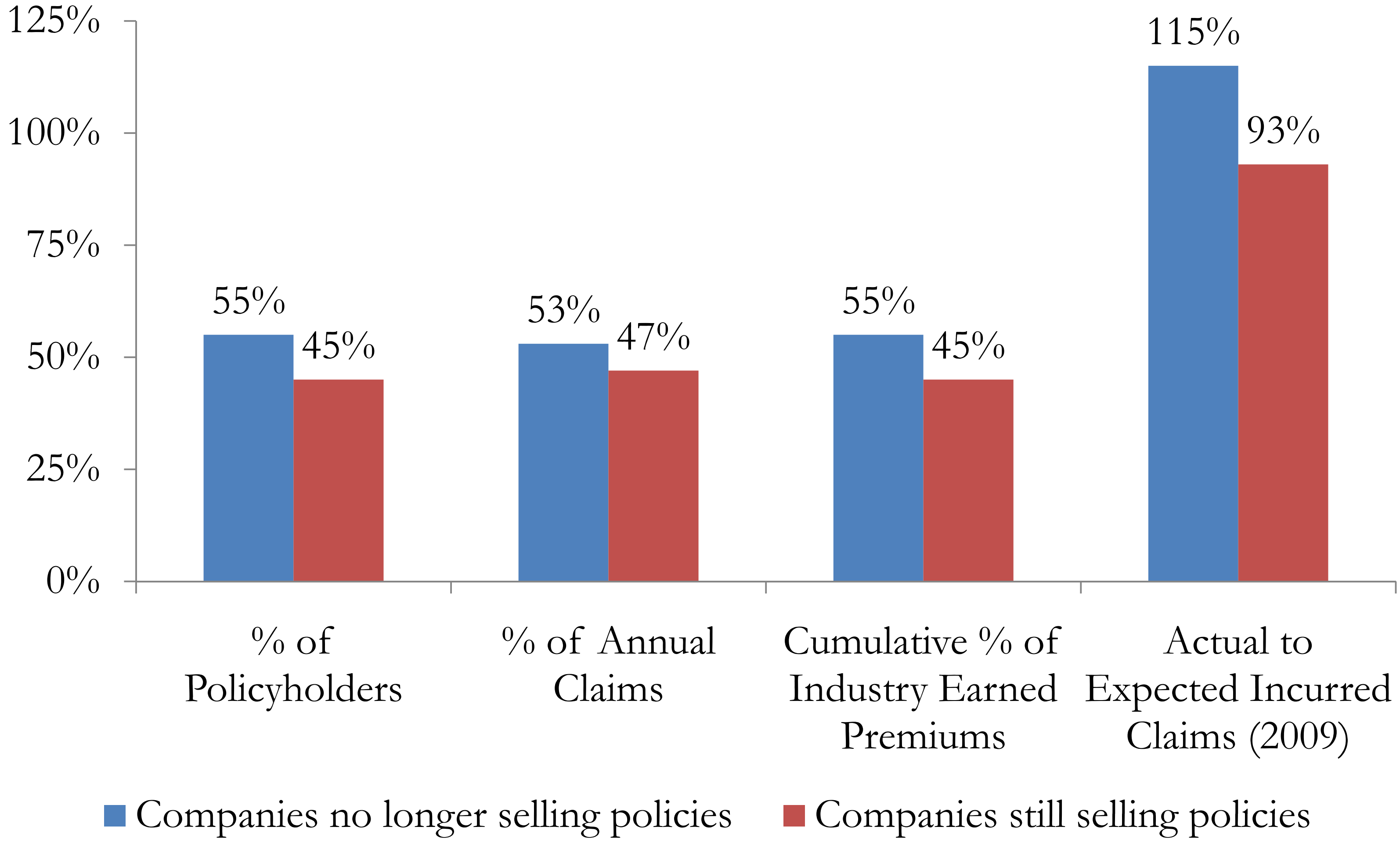
Source: NAIC Experience Reports, 2012

RECENT TRENDS AND OPPORTUNITIES

Roughly 20 companies are still selling a meaningful numbers of policies; in 2002, AHIP reported 102 companies selling policies

Currently Selling	Closed Blocks
Auto-owners Insurance Group	Unum Life Insurance Company of America
Genworth Life Insurance Company/ Genworth Life Insurance Company of NY	First Unum Life Insurance Company
John Hancock (Individual Policies)	Metropolitan Life Insurance Company
Bankers Life & Casualty Company	John Hancock Group
Transamerica Life Insurance Company	Metlife Insurance Company of CT
Country	Continental Casualty Company
Life Secure	Prudential Insurance Company of America
State Farm Mutual Auto Insurance Company	RiverSource Life Insurance Company
New York Life Insurance Company	Allianz Life Insurance Company of North America
Northwestern Long Term Care Insurance Company	Senior Health Insurance Company of PA
Mutual of Omaha Insurance Company	Penn Treaty
Massachusetts Mutual Life Insurance Company	Aetna Life Insurance Company
Medamerica Insurance Company/ Medamerica Insurance Company of NY	Lincoln Benefit Life Company
Knights of Columbus	Union Security Insurance Company
Thrivent Financial For Lutherans	Time Insurance Company
United Security	Ability Insurance Company
Lincoln Financial Group	United Teacher Assoc Insurance Company
State Life	American Family Life Assurance Company of Colorado
United SPDA/LTC	Monumental Life Insurance Company
	Kanawha Insurance Company
	CUNA Mutual Insurance Society
	Physicians Mutual Insurance Company
	Provident Life & Accident Insurance Company
	WEA Insurance Corp
	Guarantee Trust Life Insurance Company
	Southern Farm Bureau Life Insurance Company WEA Insurance group is still marketing a small number of Partnership policies.

Most policies are now administered by companies no longer in the market and these companies have less favorable claims experience



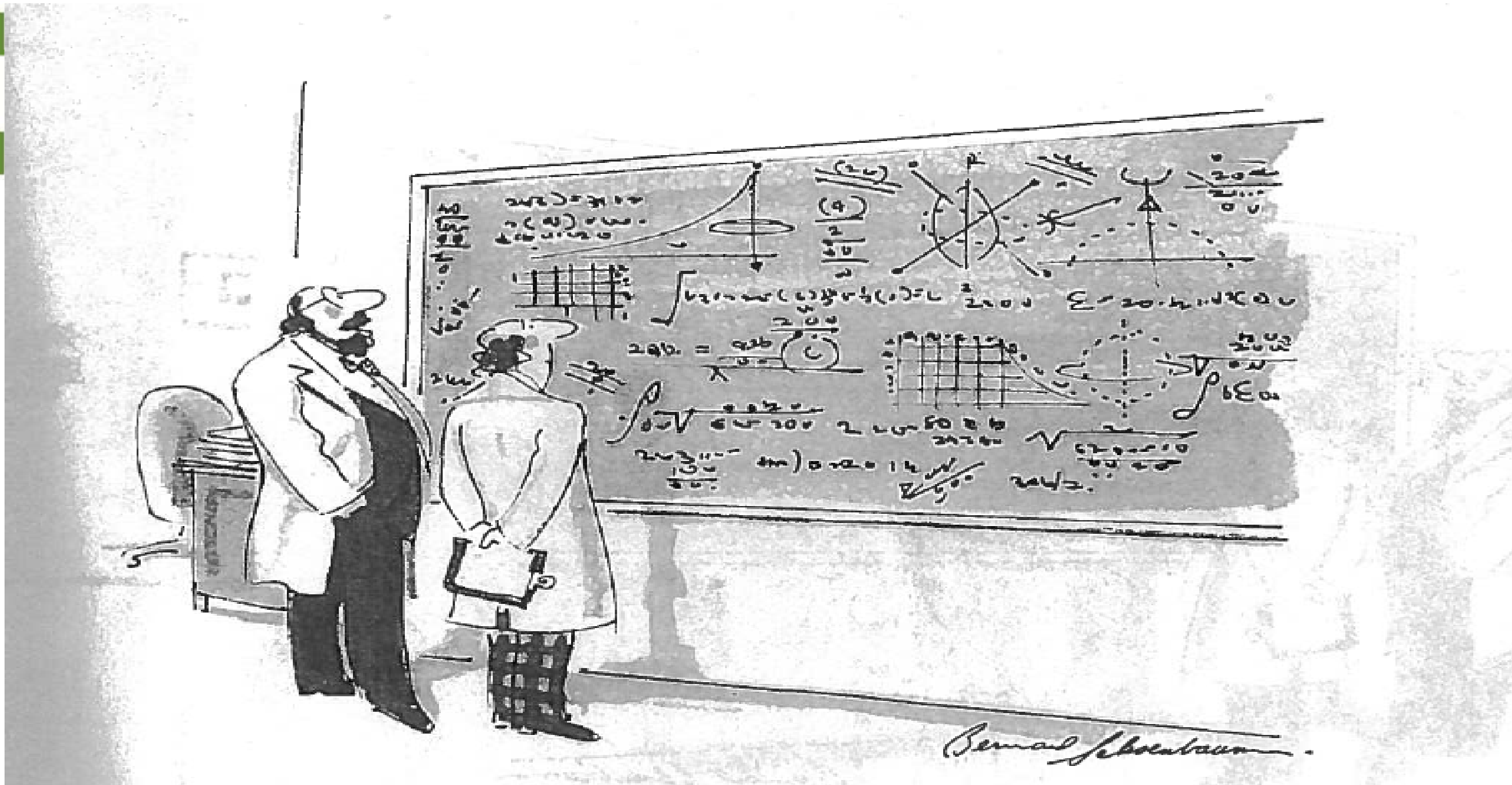
Source: Analysis of 2009 and 2010 NAIC Experience Exhibit Reports

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…….

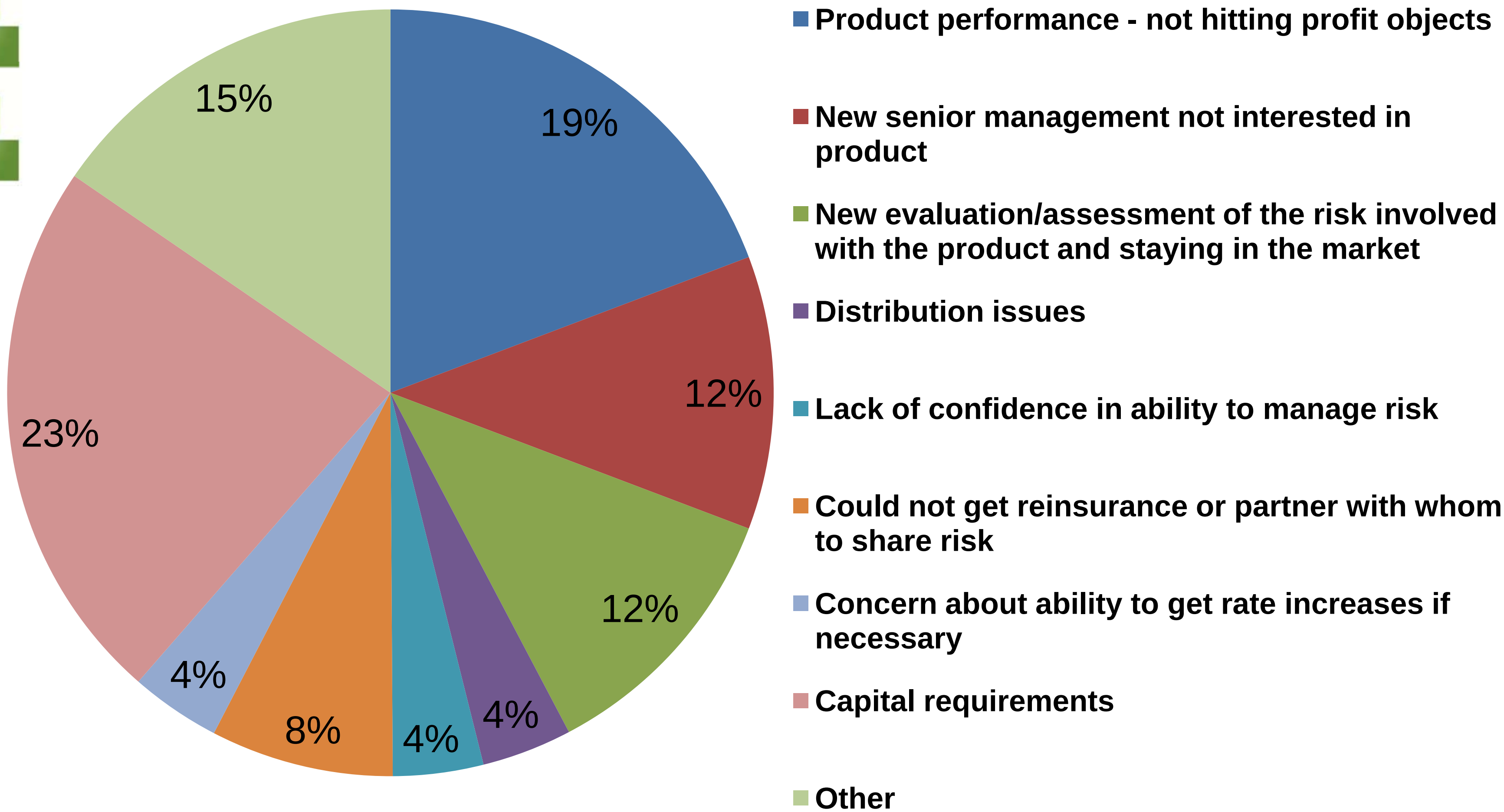


"Oh, if only it were so simple."

Distribution Challenges Persist

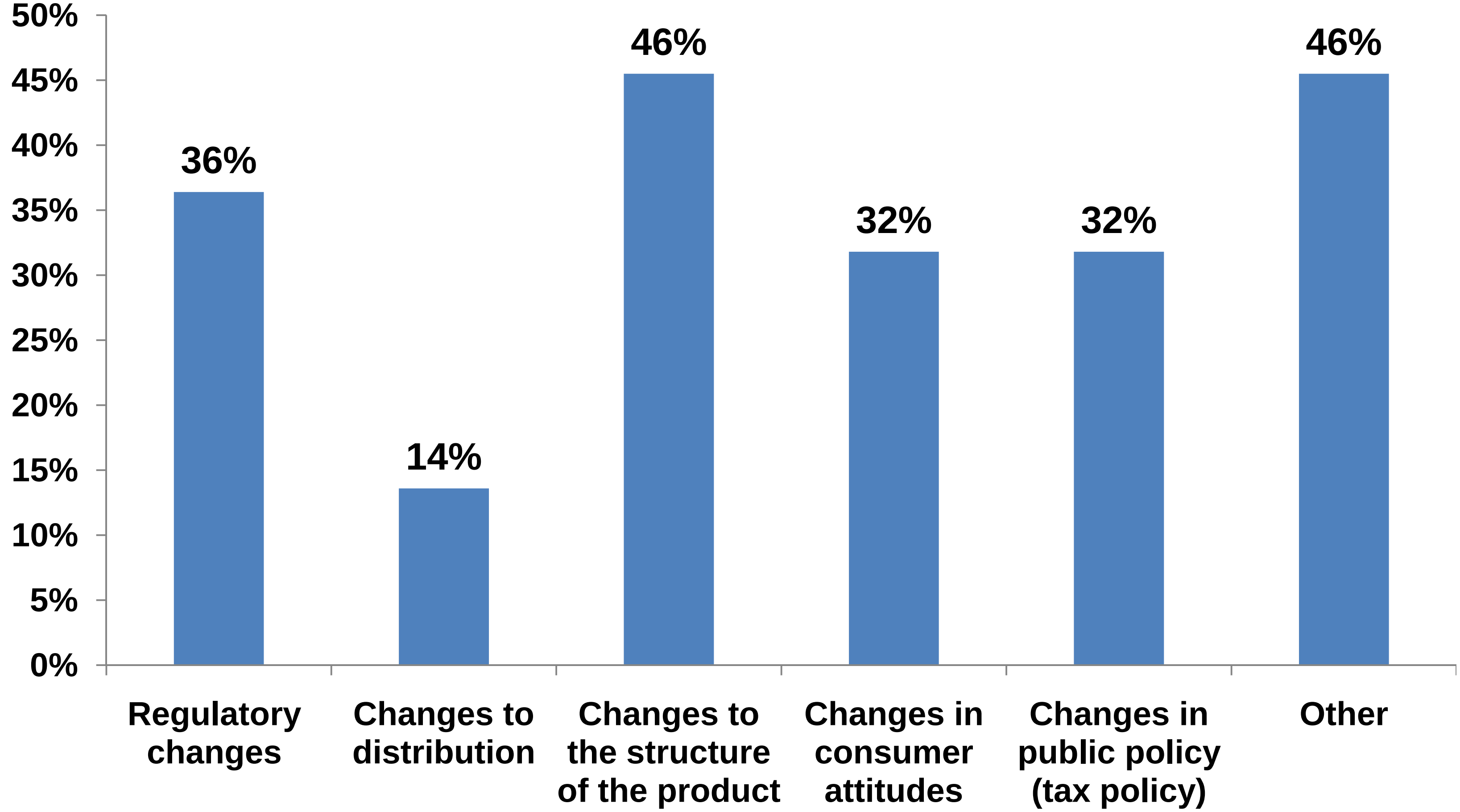
- The number of agents selling LTC has declined and there are fewer specialists
- The agent force is aging
- Little succession planning evident
- Consumers purchase products differently today and rely more on the internet
- Higher commissions did not appear to draw enough new agents into the market to 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



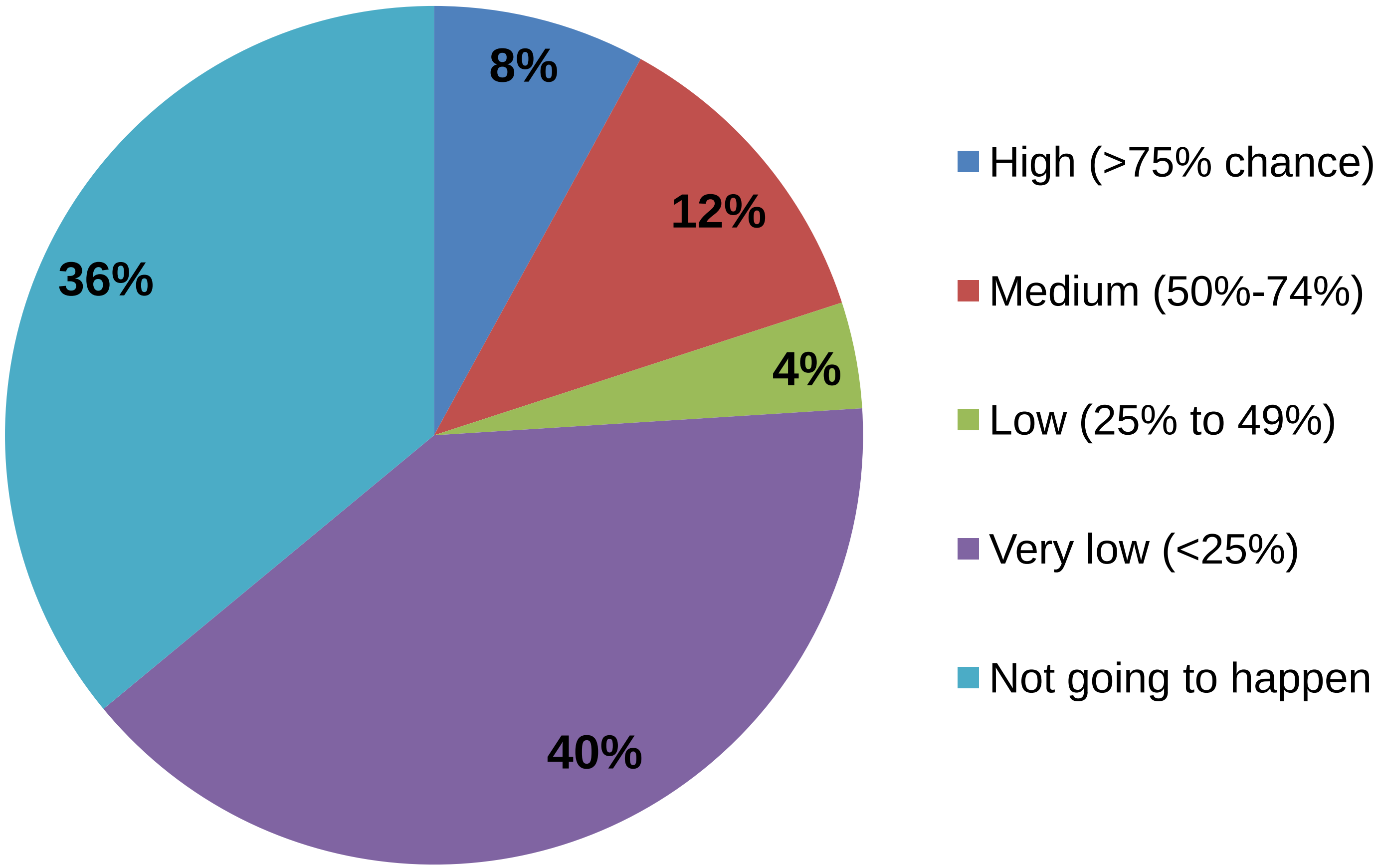
Source: DHHS, 2013

Circumstances under which Company would consider re-entering Market



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