

Marketing

Protecting Our Future



15th Annual Intercompany Long Term Care Insurance Conference

- Aaron Ball – Vice President and LTC Business Leader, New York Life Insurance Company
- Brian Ulery – Vice President and Actuary, Transamerica Long Term Care
- Mary Swanson – Vice President and Actuary, Mutual of Omaha

Is There Support for the LTCi Industry?



Carriers in current marketplace have strong belief that the LTCi product line continues to provide value to the carriers, consumers, and distributors.

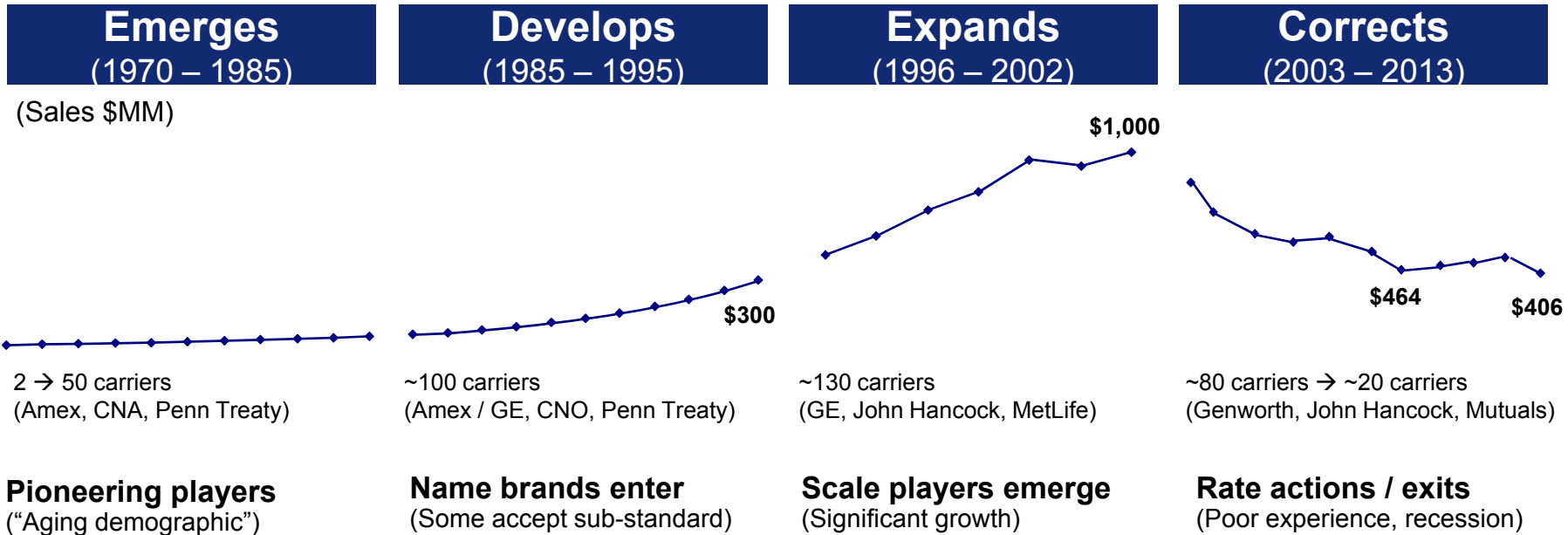
The LTCi market is very appealing and continues to be a good fit for carriers in that it:

- Provides middle to mass affluent market asset protection
- Continues to be an important financial planning consideration
- Should be a growing market given demographic tailwinds and no viable government alternative

What's the issue?

We are stuck on our past mistakes. We need to look to the future.

LTCi Industry Evolution



Key reasons why carriers have ceased selling LTC⁽¹⁾

- Capital requirements (23%)
- Product performance and ability to manage rate increases (regulatory uncertainty) (23%)
- Revised risk assessment (12%)
- New management – not interested in LTC (12%)

**Primary drivers of product performance...
lapse rate, interest rates,
morbidity and mortality**

1) "Long-Term Care Insurance: A Product And Industry In Transition," Presented To NAIC Senior Issues Task Force, November 28, 2012

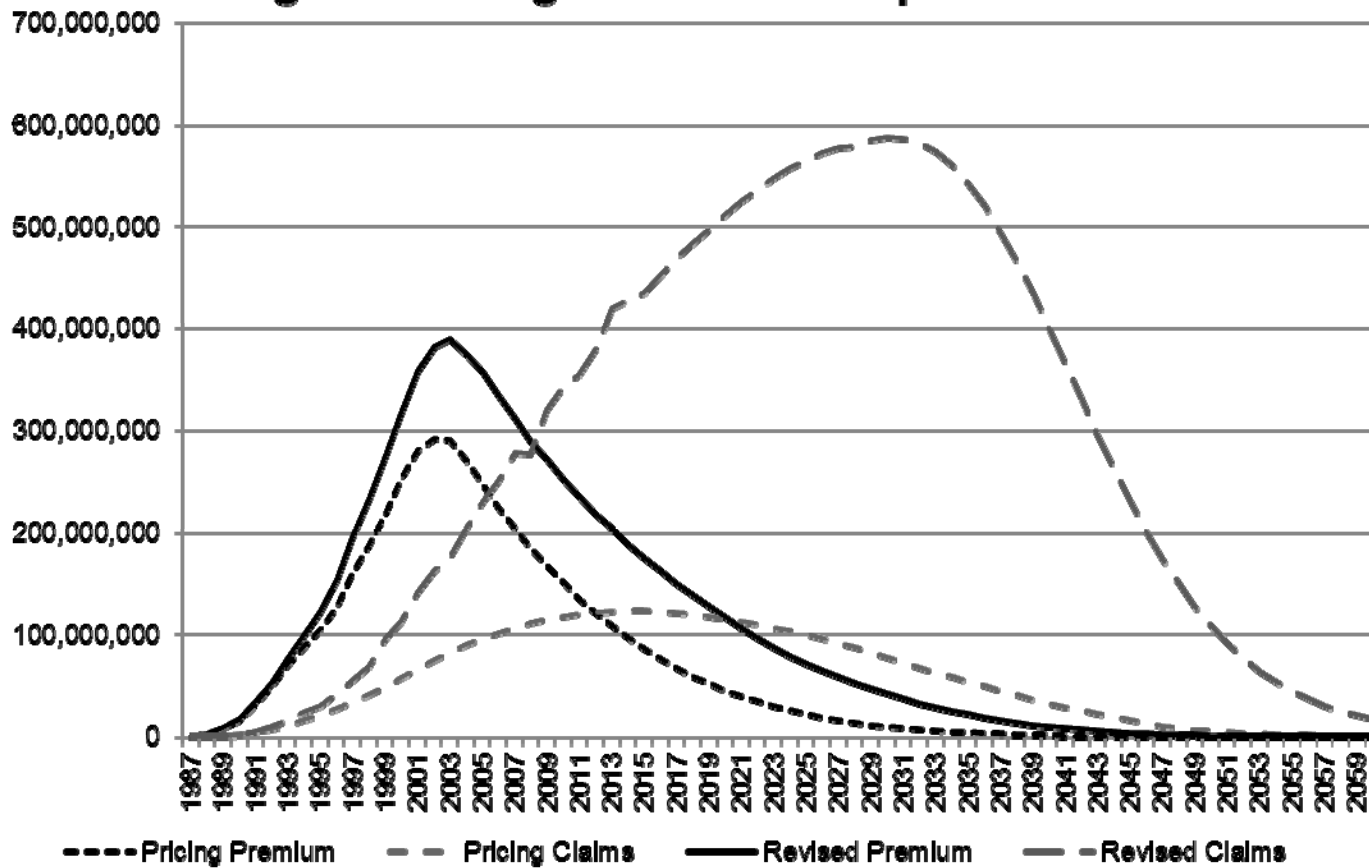
*US Life - July 2013 Board Update
Company Confidential*



Learning from the Past - Pricing



Original Pricing vs. Current Expectations



Learning from the Past - Terminations



Voluntary Lapse Rates:

- Initial ultimate lapse rates assumed to be approximately 5%
- Current ultimate lapse assumption continues to drop to <1%
- Significant amount of experience to assist with assumption development

Pricing implication: Low risk due to pricing based on lower lapse rates with understanding of risk of no one lapsing (<5% change in premium)

Mortality Rates:

- Initial Mortality assumed to be 1983 GAM blended M/F
- Current Mortality assumption is based on 2000 Basic table with mortality improvements.

Pricing implication: There is no consensus on what effect mortality improvement might have. While mortality improvement in active lives may be favorable, mortality improvement in disabled lives would be adverse.

Prior Challenges:

- Initial estimates based on nursing home experience
- Experience doesn't emerge for 20 years+ after issue
- Continuance experience deviated significantly from initial
- Utilization increases due to lack of coordination
- Impact of policyholder behavior on experience was initially unknowable (e.g. utilization rates for lifetime vs. limited benefit pools)

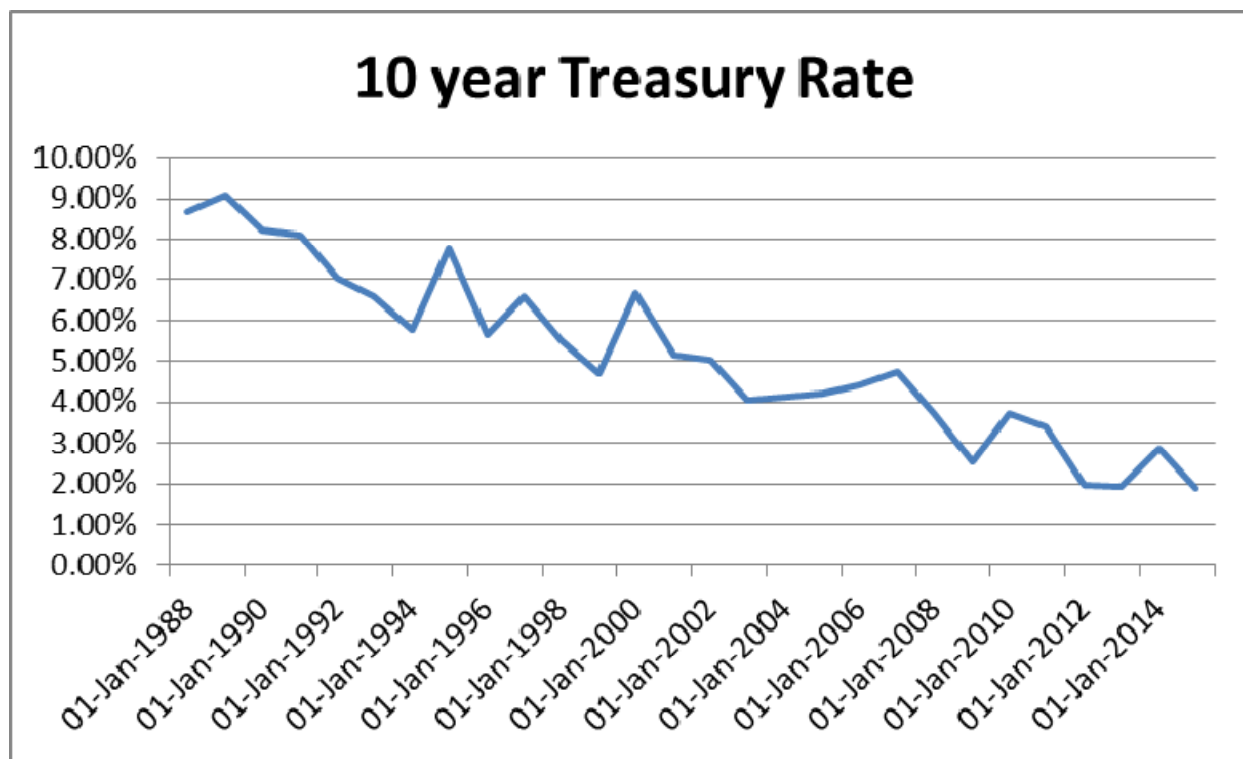
Experience continues to emerge and improve estimations:

- Expectations for shorter benefit periods has not changed significantly
- Incidence rates have begun to stabilize
- Continuance risk has been reduced due to no longer offering unlimited benefits, but growth of benefit pools that mimic lifetime could present a challenge

Pricing Implication:

Limited benefits reduce the potential for significantly worse continuance. Industry still needs to develop way to engage consumer to monitor benefits.

Learning from the Past - Investments



Current investment environment significantly impacts LTCi revenue & causes additional strain.

Hedging programs impacted by low rate environment and Dodd-Frank requirements

Pricing Implication: Low risk due to stronger potential for increase in investment rates over long term, but “Japan scenario” still a concern

Learning from the Past-Sensitivity of Pricing Assumptions: Lapse and Interest Rate



Lapse

Definition:

Policyholder Voluntarily Ceasing To Pay Premiums

Non-Payment Due To Death, Benefit Exhaustions Are Not Considered
Voluntary Lapses

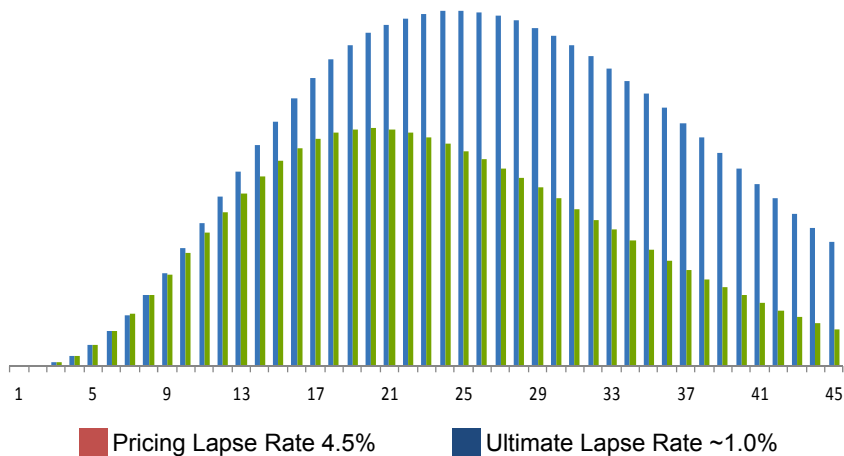
Earned Rate

Definition:

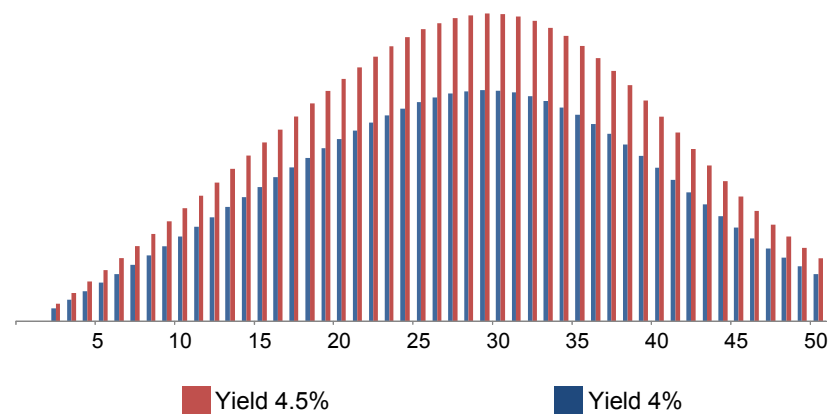
Rate Insurer Expects To Earn On Invested Assets Over Life Of Policy

Rate Based On A Distribution Of Investments With Their Associated Yields

Paid Claims In Different Lapse Scenarios

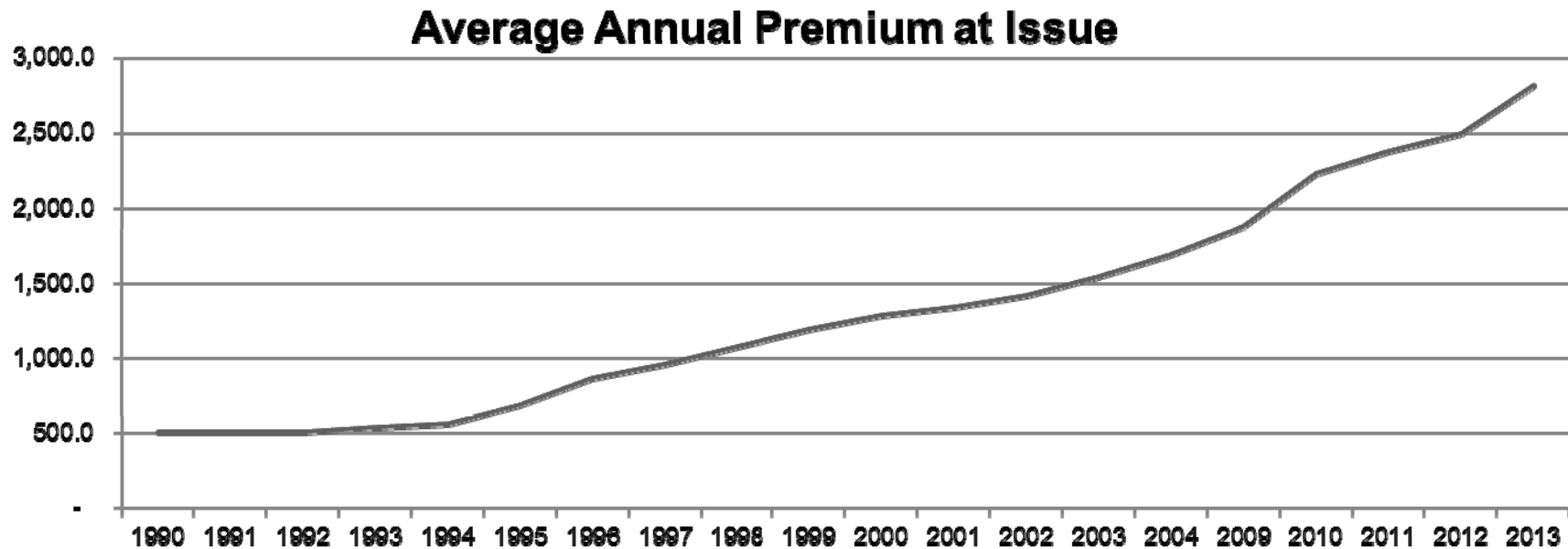


Impact on Anticipated Investment Income



US Life - July 2013 Board Update

Challenges - Sales Growth



- Pricing increases have narrowed the market of potential consumers
- Stricter underwriting standards
- Pressure towards sales to younger consumers, who have less motivation to purchase.



- Historically, the model has been to cover as much of the LTC cost as possible
- Rich benefits – lifetime benefits, survivorship, 5% compound inflation, etc.
- Emergence and growth of home health care and assisted living facilities increase likelihood of claims
- Distribution hesitant to sell policies with fewer benefits than what was sold in past

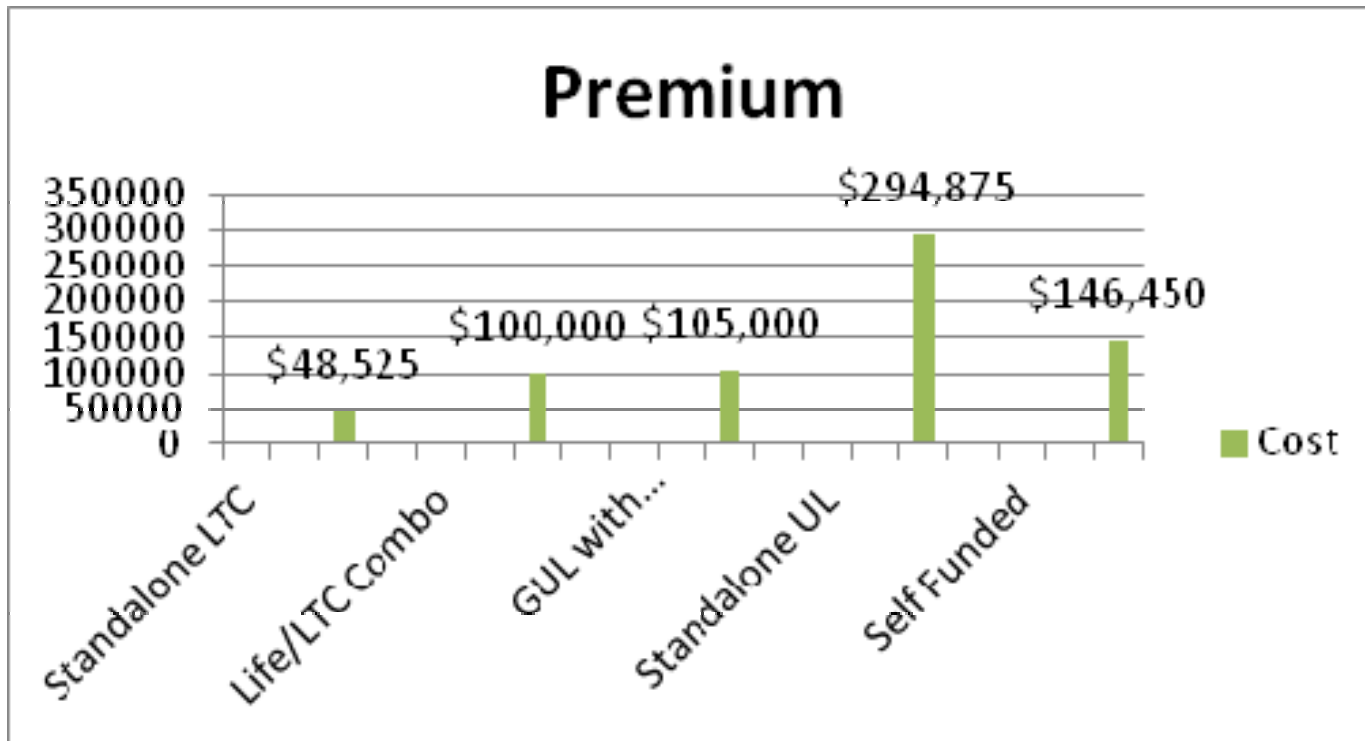
- Restricts product design
- In absence of TQ requirements, there are ways to decrease price by restricting benefits
- TQ requirements don't necessary reflect current LTCi pricing challenges



- State specific producer training requirements limit producer adoption
 - Can influence product recommendations
- Qualifications that vary by state
- Minimum inflation requirements
- State filing requirements remain to certify policies as partnership despite ICC

- Over half of claims dollars paid for claims related to cognitive impairment, despite CI claims representing less than half of the actual claims
 - Typically the most feared scenario for insureds
- Over 40% of claims last less than one year
- Home care claims represent about two-thirds of all claims by situs

Is today's LTCi still a value for consumer?



Stand alone LTCi is still a strong value for the consumer!

Why Private Insurance is a Necessary Component of the LTC Funding Solution



Better Than Self-insuring...

Not everyone will need Long Term Care

LTC needs may arise earlier than anticipated – Insurance provides coverage Day 1

Self-insuring requires having sufficient liquidity to cover the costs of the care

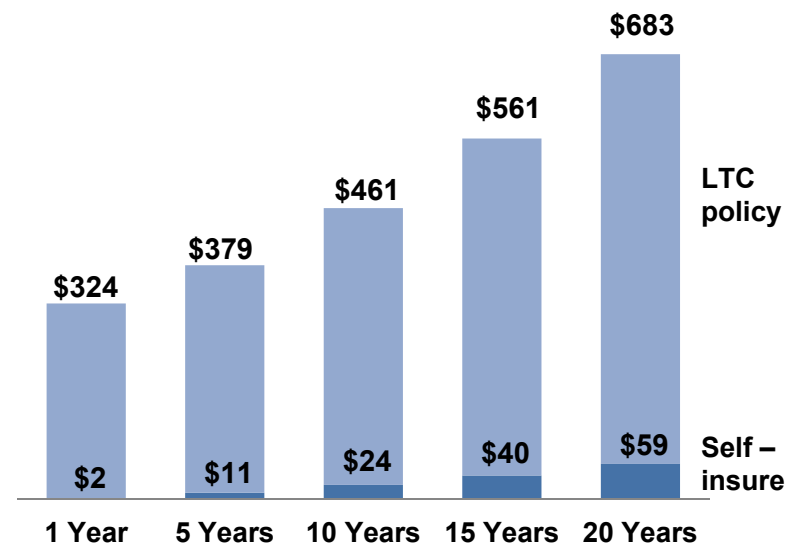
May require selling qualified assets with tax consequences

May require selling assets in a down market

Can result in lost investment opportunities or income on assets sold

US Life - July 2013 Board Update

Funds Available To Pay For LTC – Insurance Versus Self-Funding



Insurance: \$1,900 / Year LTC policy⁽¹⁾ with 4% compound inflation protection option

Self-Funding: \$1,900 / Year invested; growing at 4% net of taxes



- Great concept to partner with states
- States are cognizant of budget pressure
- Promotes people to take ownership
- Promotes state support of LTCi
- Consider future funding to reestablish “Own Your Future” campaigns
- Consider consolidating LTC Education requirements into Life & Health for all agents

- Smaller policy sizes with fixed pools of money
- Coinsurance
- Higher deductibles
 - One-two year elimination periods
 - Dollar Deductibles

- Disincentivize adverse policyholder behavior
 - e.g. Waiver of Premium
 - In-Network and Out-of-Network Providers
 - Stronger penalties for fraud or misrepresentation

- Premiums that increase $x\%$ per year
- Consider credit/premium reduction for favorable experience
- Greater regulatory certainty to adjust for adverse experience

- Demand amongst consumers and distributors
 - Mitigates the “use it or lose it” concern
- Doesn’t have to be tied to premiums
- Could be greater than a ROP
- Levels the playing field with traditional linked benefit products
 - May positively impact policyholder behavior (e.g. no death benefit where a claim is paid, or \$ for \$ reduction)

- Would allow for high and low cost options
 - Term life versus permanent life
 - “Available funds” are being utilized due to regulatory restrictions
 - Why do we need to buy a life contract to get a long term care contract
- Mitigates the “use it or lose it” concern
- Increased marketability to younger consumers

Marketing

Any Questions?

Thank You for Attending



15th Annual Intercompany Long Term Care Insurance Conference

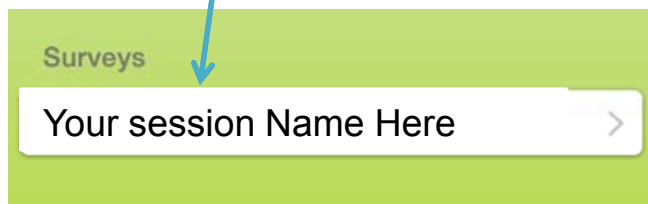
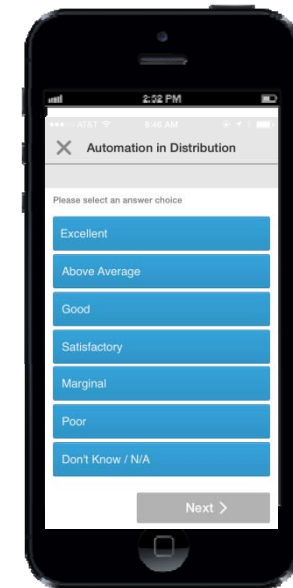
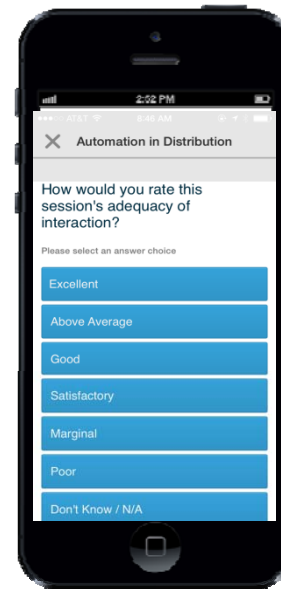
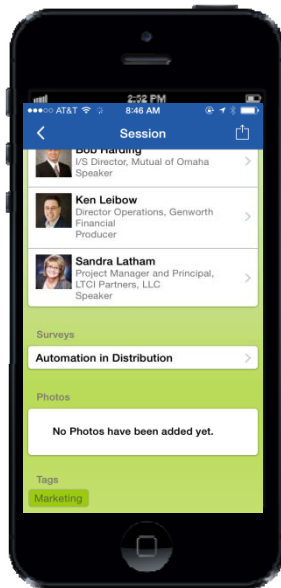
Don't forget to fill out the survey



1st you must have download the ILTCI Mobile App
- Go to your app store; search ILTCI. It's free.



1. Find the session
2. Scroll to the bottom
3. Tap on the session name below the survey



Tap on the answer you wish to submit

Click Next