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Public/Private Solutions and Collaboration in LTC

March 24, 2015

Al Schmitz, Milliman

Steve Schoonveld, Lincoln Financial Group

Bob Yee, PricewaterhouseCoopers



15th Annual Intercompany Long Term Care Insurance Conference

Agenda



- Introduction
- Design
- Financing

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Introduction

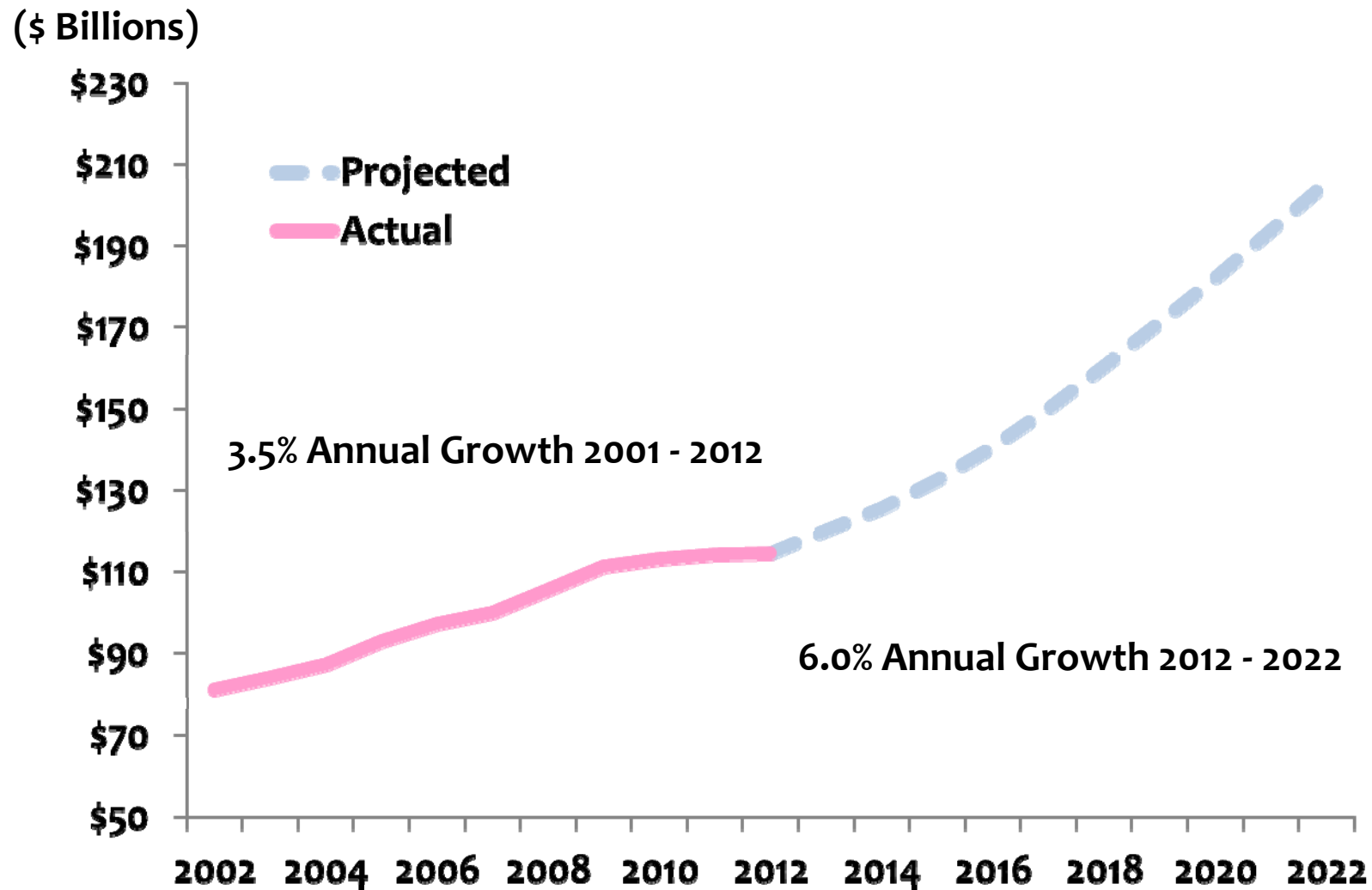
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- State of LTC financing discussion
 - LTC Commission
 - Bipartisan Policy Council, ASPE, etc.
 - Conference on Aging
- What's at stake?
 - Aging population
 - Intergenerational transfer
- Financing challenges
 - Population segments
 - Long funding horizon

Medicaid LTC Expenditures



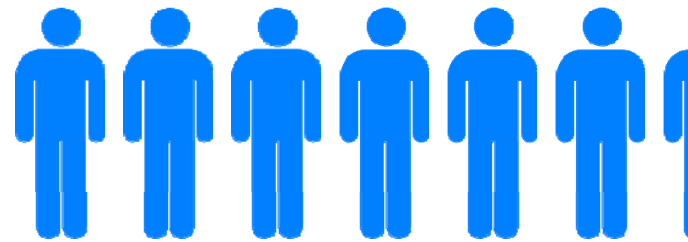
2013 Medicaid Actuarial Report

Dependency Ratio Projection



2010 Census – U.S. Census Bureau

2014

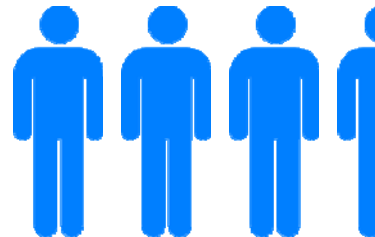


6.3 Persons
Ages 18 - 64



1 Persons
Ages 70 & Over

2040



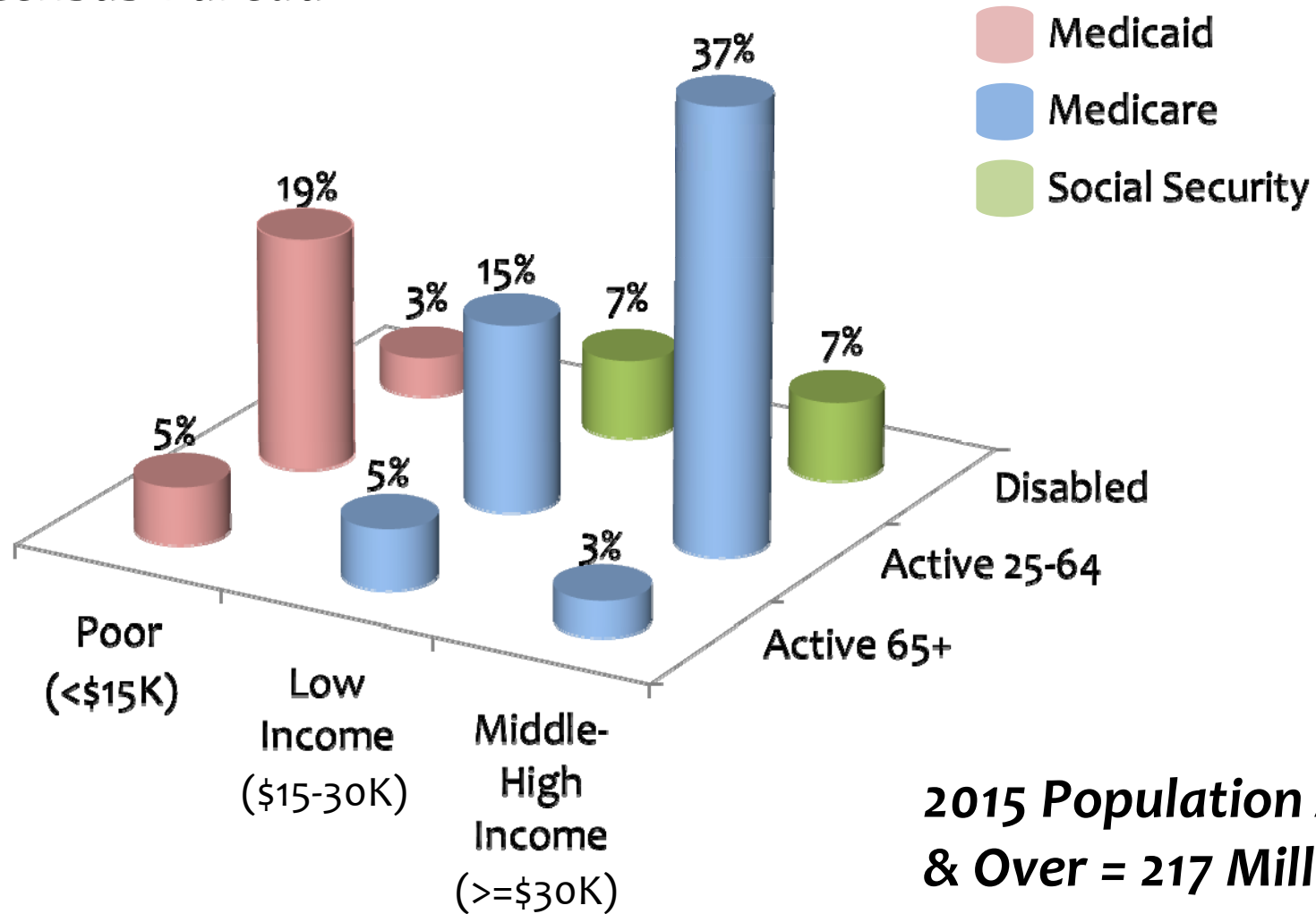
3.5 Persons



Population Segmentation



Personal Income 2010, Americans with Disability – U.S. Census Bureau



**2015 Population Age 25
& Over = 217 Millions**

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Design

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- Design must contemplate complex interrelated moving parts
- Example: Illustrate complexity by working through one major design decision

- LTC Reform - Applicability to Areas of Scientific and Mathematical Research
 - Multivariate Analysis
 - Design Circularity
 - Behavioral Economics
 - Complex Systems Analysis

- Target Market
 - Segmentation
- Balance Design Complexity / Customization
 - Get people to plan
- Public / Private
 - Administration
 - Risk
 - Collaborative mix
- Mandatory / Voluntary
 - Political considerations
 - Is any mandatory component feasible?

- Sample Insurance Reform Design
 - Question – Front End or Back End Coverage?
 - Front End Coverage
 - 1-2 years
 - Catastrophic Coverage
 - Deductible of 3-5 years
 - Vary by income or assets?

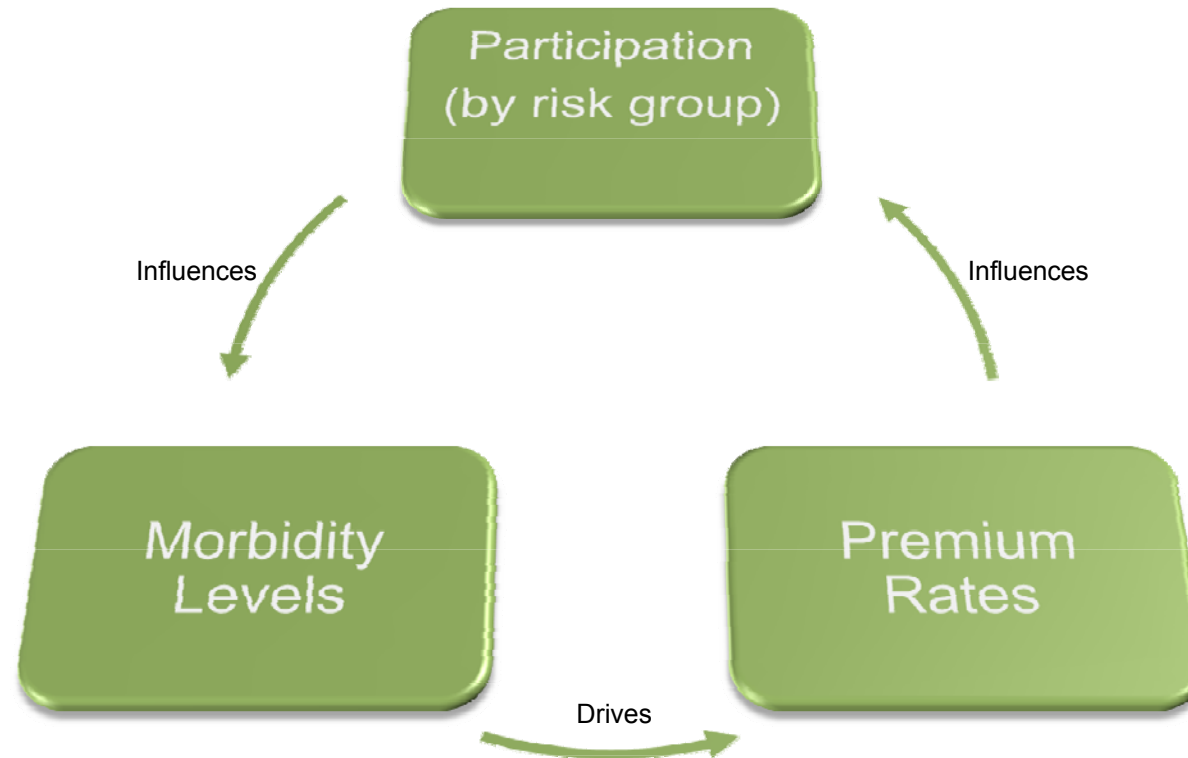
- Distribution of LTC risk by time – Sample

- Lifetime Risk
- Sample for individuals attained age 65

	Percent With No LTC Cost	Percent With Any LTC Cost	Distribution of Persons With LTC Costs (Shown as Percent of Individuals with LTC costs)						
			< 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	5-6 Years	> 6 Years
Men	65%	35%	41%	19%	13%	9%	6%	4%	9%
Women	56%	44%	29%	16%	13%	10%	8%	6%	18%
Total	60%	40%	34%	17%	13%	10%	7%	5%	14%

- Estimates representative of an insured population, and may not relate to the general population due to the different patterns of care for individuals with funding support from government programs
- Estimates reflect LTC product design with a service benefit and HIPPA 2+ ADL trigger; different benefit designs with higher utilization rates (such as cash benefits or IADL triggers) may result in different patterns.

Adverse Selection Modeling – Voluntary System



Other Drivers of All Three

- Benefit Design
- Perceived Value
- Eligibility
- Marketing
- Other Program Availability

Other Considerations

- Waiting Period
- Non-level premiums
- Commissions
- Benefit Period
- Size of daily/weekly/monthly benefit
- Cash vs Reimbursement (or hybrid cash)

Other Considerations

- Eligible Expenses
- Benefit Eligibility Criteria
- Deductible / Elimination period – time or money
- Vary Deductible by income or assets
- Traditional LTC or some type of combination plan

- LTC Insurance Reform
 - Complex Interrelated Moving Parts
 - Example: Design Decision – Front End or Back End?
 - Target market
 - Financing approach
 - Voluntary mandatory
 - Public / private
 - Waiting period, premium structure, benefit size, cash vs reimbursement, eligible expenses, benefit eligibility, vary deductible by income
 - Behavioral dynamics

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Financing

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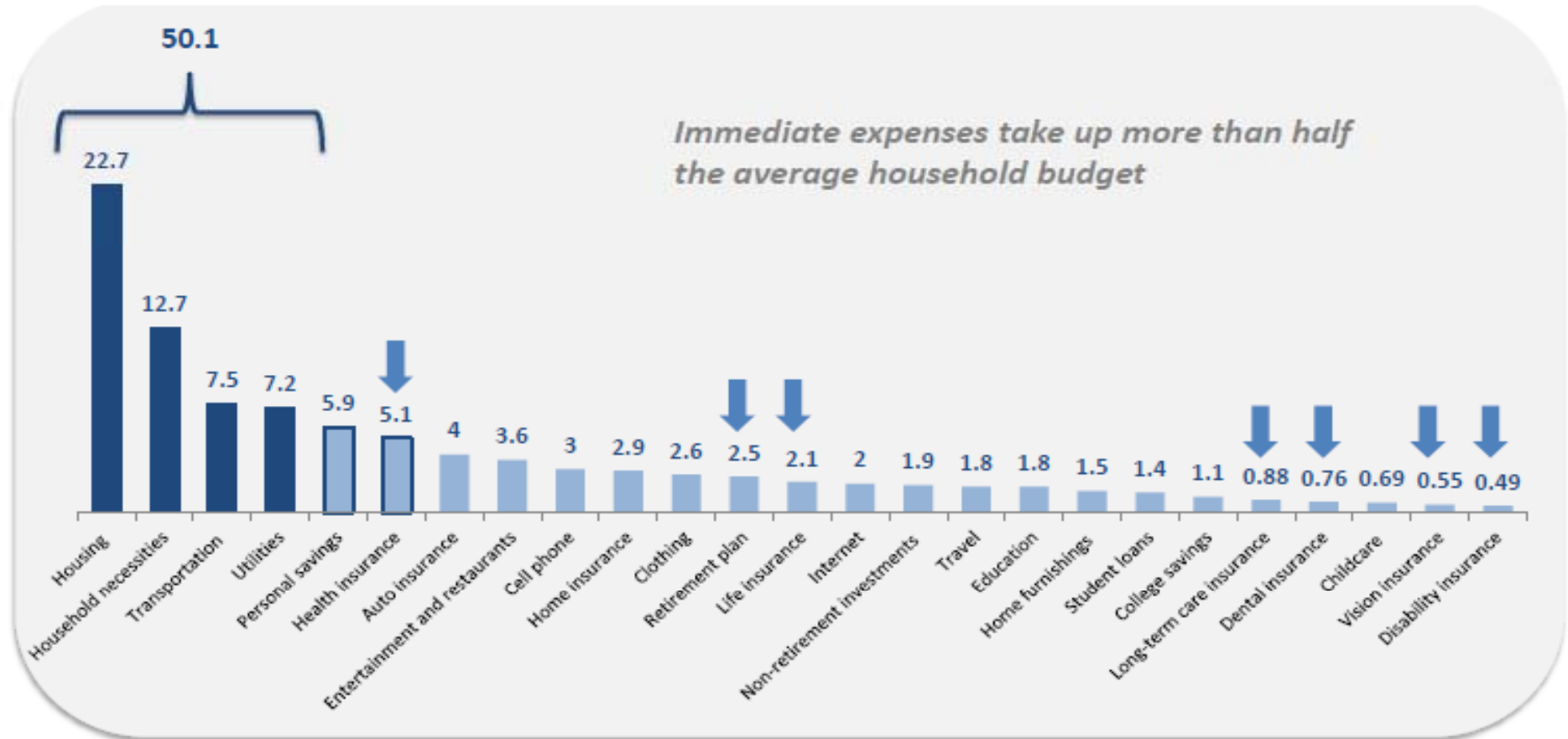
- A focus on Two Funding Sources:
 - Consumers
 - Program / System

- Why Consumers?
 - Consumers are indeed the intended target.
 - Regardless of the product approach taken, consumers fund the Long-Term Care expense risk.
 - Product or policy success depends heavily on consumer participation.
 - Consumer satisfaction = success.

Consumer Spending & Planning



Please indicate roughly how much per month you spend on each of these?



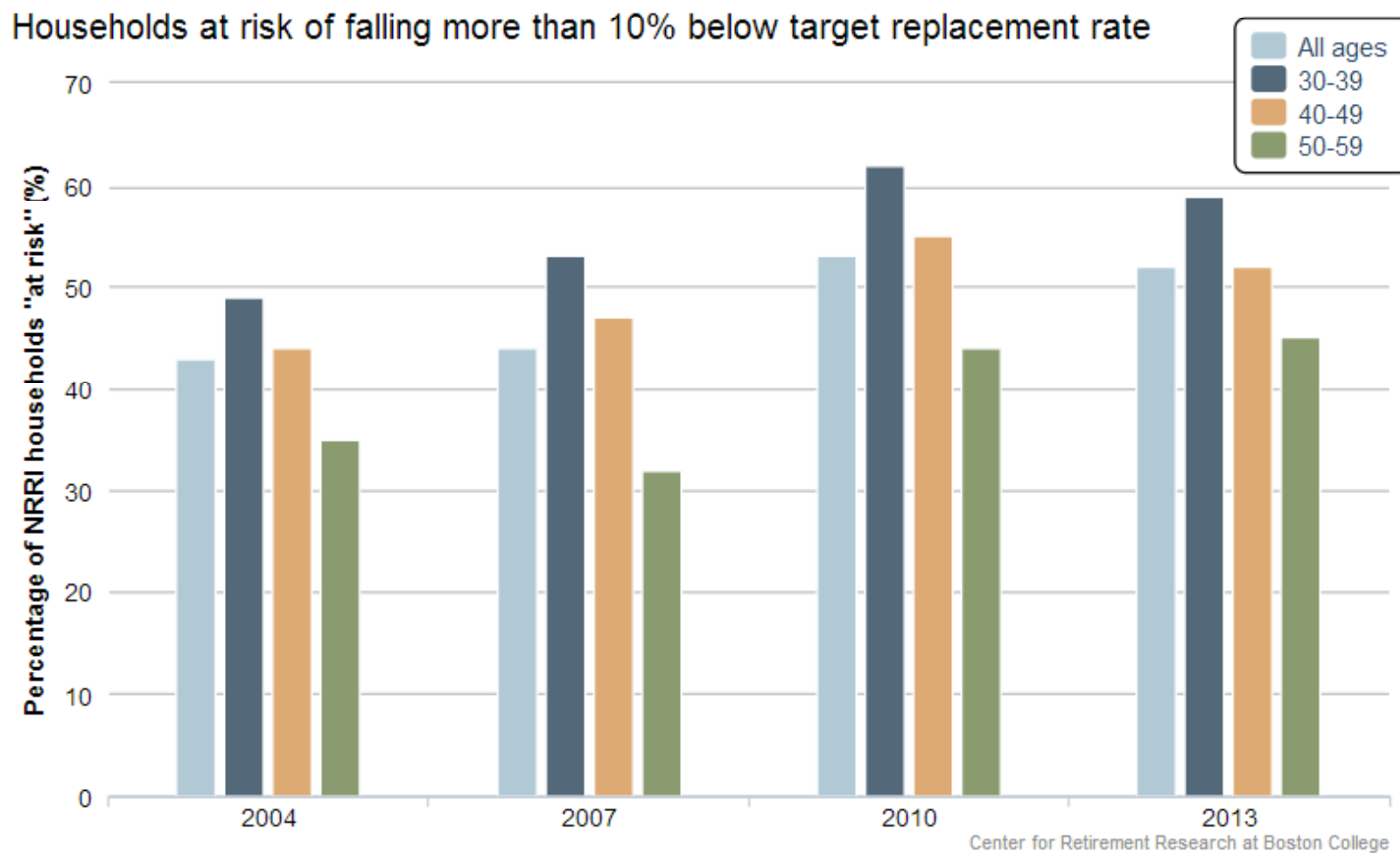
Source: 2013 Lincoln Financial Group Consumer Cohort Study



#LTCSummit

Session LTC14 - 36

Financing – Current Planning Weaknesses



More than half of working-age households are at risk of falling more than 10% behind replacement rate targets, according to one retirement readiness measure presented in a report released Tuesday.

Percentage of Simulated Life Paths With Sufficient Funds to Pay All Expenses in Retirement, By Income Quartile

	Income Quartile			
	Lowest	Second	Third	Highest
No Stochastic Health Costs	38.9%	89.2%	96.9%	99.4%
Stochastic Health Costs >0	10.6%	42.3%	42.3%	83.6%

VanDerhei, Jack. 2012. “What Causes EBRI Retirement Readiness Ratings to Vary: Results from the 2014 Retirement Security Projection Model” EBRI Issue Brief No. 396 (February).

As referenced in The Impact of Long Term Care Costs on Retirement Wealth Needs
 Vickie Bajtelsmit and Anna Rappaport <https://www.soa.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx>

- Family structure:
 - Single/married/divorced/widowed
 - With or without family/friends to provide care
- Income/Assets
- Planners & non-planners
- Retirement Needs
- Location
- Housing
- Propensity to care for one another
- Health

\$450 Billion – the estimated economic value of family caregiving in 2009.

Valuing the Invaluable: 2011 Update - The Growing Contributions and Costs of Family Caregiving; Lynn Feinberg, Susan C. Reinhard, Ari Houser, and Rita Choula; AARP Public Policy Institute

“An overwhelming majority (83 percent) say that providing care has been a positive experience in their life...”

“Long-Term Care in America: Expectations and Reality” The Associated Press-NORC

- What should be the estimated economic value of Informal Care?
 - a. Close to zero
 - b. <450 Billion (or today's comparable #)
 - c. >450 Billion (or today's comparable #)
 - d. I don't know
- Should a Public/Private Solution _____ this use of informal care?
 - a. Encourage
 - b. Support
 - c. Fund
 - d. All of the above

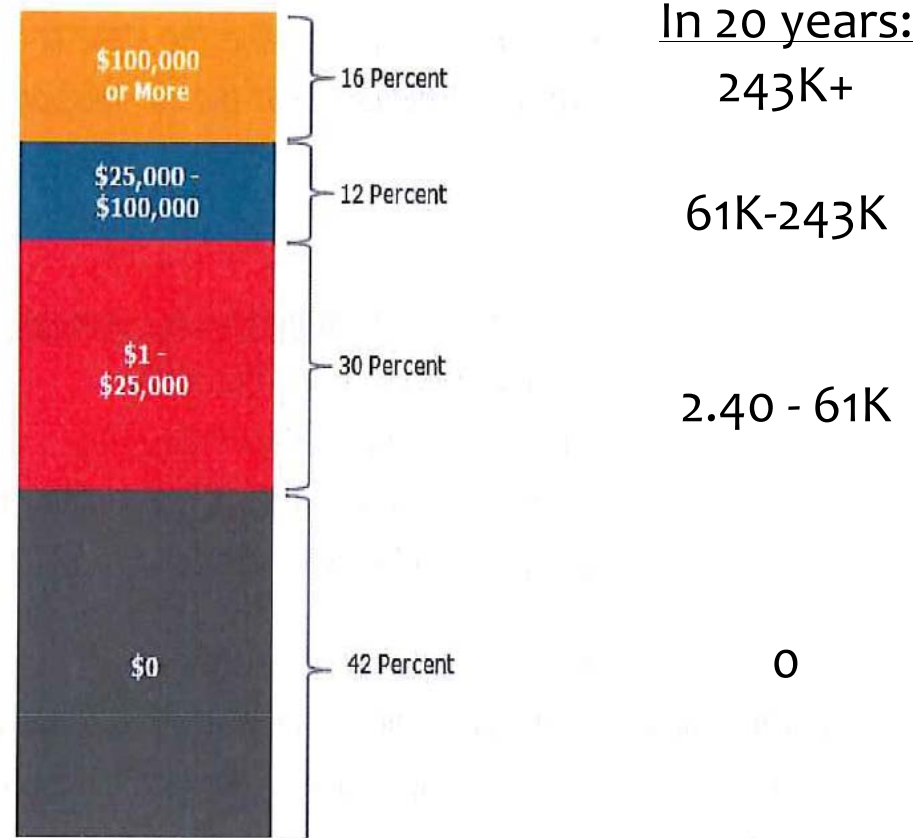
“Experts estimate that 7 in 10 Americans aged 65 or older will need long-term services and supports at some point. However, in the U.S., the costs of long-term care services are currently covered by a patchwork of private insurance, public programs, and reliance on unpaid family caregivers....”

Federal Information & News Dispatch, Inc.– March 19, 2015

Financing - Consumers



Projected Long-Term Care payments for those who reach age 65
Vary significantly



Source: BPC, America's Long Term Care Crisis: Challenges in Financing and Delivery, April 2014.

- Considerations for Consumer Financing
 - A significant need to study consumers and the entirety of their risk profiles.
 - Fully embrace and support family caregiving
 - Consider pre-retirement vs post-retirement needs and risks
 - Understand what can be financed by the market segments

- Importance of the Financing Approach
 - Impact on:
 - State & Federal budgets
 - Consumers
 - Providers
 - Insurers – health & LTC
 - Existing Social Insurance programs
 - Etc...
 - Impact of the premiums or contribution approach on the sustainability of the financing system.

- Typical Approaches
 - Mandatory/Voluntary
 - Pay as you go vs Premium financed
 - Taxes
 - Subsidies
 - Safety Net complemented by the private market

- Alternative Approaches:
 - The “Tag team approach” – Medicare, Health Insurance
 - Integrated approaches:
 - with IRA/401k fund planning
 - with complementary risks – death/longevity
 - Use of Social Security benefits

- Funding method influences behavior
 - Mandatory/Voluntary
 - Pay as you go vs Premium financed
 - Taxes
 - Subsidies

A LTSS Financing System **Must:**

- Be Sustainable
- Be Affordable
- Attain Broad Coverage
- Provide Comprehensive & Complementary Benefits
- Make Efficient Use of Funds
- Have Appropriately Aligned Incentives

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Questions & Discussion



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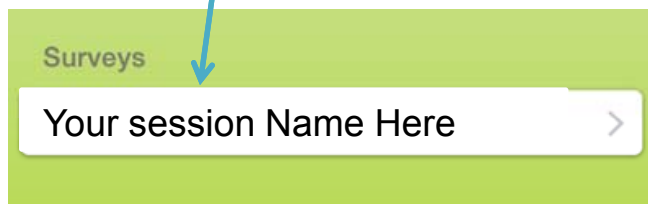
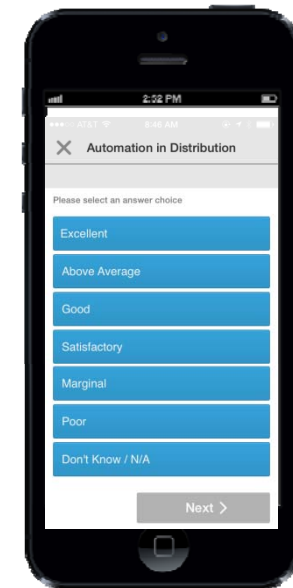
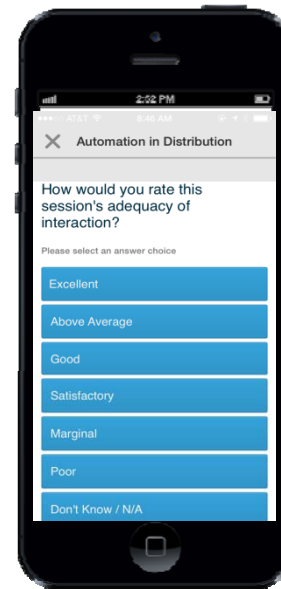
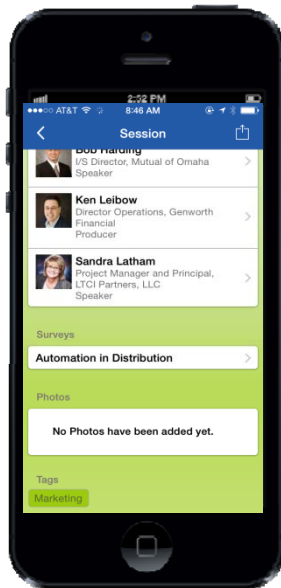
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