

Alternative Solutions

Re-inventing long term care funding
A Lifestage product
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Panelists:

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LifeStage Product Concept- Agenda



Background and Market rationale

- Encouraging middle class solutions
- Importance of consumer familiarity
- Life insurance versus LTCi
- Overview of Life Stages concept

Actuarial

- Basic assumptions
- Preliminary Pricing

Regulatory issues

- NAIC Model Act
- Key Issues
- NAIC Innovation project
- Potential for non-traditional distribution approaches
- Questions, comments discussion



Background and Market Rationale

John O'Leary

Background-Minnesota Strategies



1. Stimulate the LTCI market to identify or develop better products for the middle-income
2. Modify legislation and regulations to allow needed changes in some products
3. Identify options for including LTC in Medicare supplemental policies
4. Find easier and safe options to access home equity for LTC
5. Find simpler and safe options for using tax-favored savings for LTC

Minnesota 15 Initial Proposals



Stimulate the LTCI market to offer new products for middle income	Modify laws or regulations to allow changes in products	Modernize Medicare and related products	Improve access to and safety of home equity options	Increase use of tax-favored savings plans
Encourage marketing of starter or transition LTCI plan	Work on state reciprocity for group and hybrid partnership products	Study feasibility of including LTC in Medigap or Advantage plans	Make reforms in MN reverse mortgage laws to improve market and consumer protection	Create new or modify existing HSA provisions to allow use for LTC protection and expenses
Encourage marketing of streamlined basic LTCI plan	Further development of combination term insurance and LTCI for lifetime protection	Consolidate the Medicare nursing facility, home health and hospice benefit	Support new options for accessing home equity for LTC	Modify provisions of tax-deferred savings plans to allow use for LTC protection and expenses
Encourage marketing of high deductible, catastrophic LTCI	Study pros/cons of establishing life settlement trust funds	Support federal Commission recommendations on Medicare changes		
Study how a public LTCI option might work in MN	Study feasibility of new reinsurance options for LTCI market			



- Features of financing options:
 - Simplified and streamlined
 - Limited in duration/robust in benefit levels
 - Affordable premiums
 - Strong, understandable consumer protections
 - Incentives for individuals to use products that meet specific criteria

LifeStage Product Concept- What is It?



- Will provide a **life insurance benefit** up to age 65, when consumers need this protection most. Then, for the same annual premium and for the same level of coverage, the product would provide a **long-term care insurance benefit** from age 65 on, when consumers are more likely to need that protection.
- Begins as a multi-year term life insurance product. A portion of the premium would be set aside to pre-fund a long-term care insurance benefit. When the purchaser reaches age 65, he/she continues to pay the annual premium, but the life insurance benefit ends and the pre-funded long-term care benefit begins.
- Periodic opportunities to increase the level of the benefit would be available, designed in a way to prevent anti-selection.



- Pools of Money = Life Insurance Face amounts- to minimize consumer decisions
 - \$100,000; \$150,000; \$200,000
 - Approximately 2 year (730 day) LTC coverage
 - DMB levels
 - \$100,000 - \$135/day
 - \$150,000 - \$205/day
 - \$200,000 - \$275/day
 - Periodic offers to increase coverage



- Two potential overall design approaches
 - Hard transformation
 - Provide Life insurance benefit up to age 65 (\$100, \$150, or \$200K face amount)
 - Then for SAME PREMIUM, and at the SAME BENEFIT LEVEL, a long-term care benefit would be provided from age 65 on.
 - Flexible transformation
 - Provide a product that begins as an 80% life insurance benefit and 20% long-term care and gradually morphs into 80% long-term care and 20% life insurance.

LifeStage product concept-marketing targets



- Middle income families (\$50K-\$125K) household incomes
- Target Age: 40 and above looking for some life insurance protection in younger years; long-term care when they are more likely to need it in retirement
- Potential for employer sales
 - Currently true group LTC limited to 1 or 2 carriers
 - A few more sell Multi-life to but group market underserved for LTC
 - Nearly 7 in 10 workers (90 million) have life insurance available at their workplaces and 80% of those participate
 - Sales of term life policies in 2014 exceeded 3 million compared to less than 150,00 LTC policies

Lifestage Product Concept- Rationale



Marketing Assumptions

- Middle income consumers need product affordability and value
- “Half a loaf is better than nothing”
- 2 years coverage will work for 51% of those who will have LTC need; 70% will spend less than \$250K (today’s dollars)
- Combo products continue to gain traction
- LTCi tends not to be on consumer’s radar until age 65
- Recent supporting data
 - Affordability most important decision factor (RTI)
 - Standalone LTCi not highly valued by consumers (RTI)
 - \$50 price point may be an upper limit for many (RTI)
 - Longer waiting periods may help pricing (ASPE/ NCOA)
 - Only 15% of seniors will need catastrophic coverage-For many, years will be enough (Urban/Milliman)



- Additional Marketing Rationale
 - Combination products provide a consumer “two-fer”
 - Wrapping LTC benefit into more familiar Life product helps overcome low LTCi awareness/interest
 - Typical combination products too expensive for middle-income
 - Pricing work suggests Lifestage may be affordable for many middle-income
 - Lifestage provides family protection when most needed
 - Life insurance during working years
 - LTC during retirement
 - Lifestage design is simple and familiar enough to be sold on-line, to E/R groups

Lifestage Product Concept- Distribution



- May not be a typical agent play due to limited dollar face amounts
- Product simplicity minimizes need for personal selling
- Lower commissions help keep premiums affordable
- Opportunity for group play due to product simplicity, product pricing, group life component
- Potential for state employees as test cases

LifeStage Product Concept-FAQs



- Will premiums remain level and be the same for both the Life and LTC benefits?
The premiums are intended to be level and remain level in the transition from Life insurance to long-term care
- Will a conversion rider be used or two separate policies?
We don't yet know what the optimal plan design structure will be; We are open to whatever is approach is best from a regulatory and administrative point of view.
- Would you consider asking employers to subsidize at least the term life portion of the premium in a group setting?
That idea is definitely worth investigating since many employers already pay for a basic group life plan and this could be viewed as a replacement for that.
- How would benefits keep up with future inflation in costs of care?
Periodic buy-ups could be made available prior to age 65; sound actuarial practices would be needed to minimize anti-selection
- Could this be designed to be a non-cancellable product?
That is an open question that is dependent on what carriers believe the future LTC risks are. Some LTC combo riders today are non-cancellable



Pricing and Actuarial Assumptions

Clark Heitkamp

LifeStage Product Concept–Sample Premiums



LifeStage Product – Sample Monthly Premiums for Selected Ages, and Benefit Levels

	Age 40		Age 45		Age 50	
Maximum:	\$100,000	\$200,000	\$100,000	\$200,000	\$100,000	\$200,000
Daily:	\$135	\$275	\$135	\$275	\$135	\$275
Males	\$40	\$80	\$52	\$105	\$67	\$135
Female	\$37	\$74	\$50	\$100	\$67	\$135

LifeStage Product Concept – Key Actuarial Assumptions



- Term life and LTC product combined product pricing
- Full underwriting at time of issue
- One level premium covering both Life insurance at issue age to age 65; LTC coverage starting at age 65
- Morbidity assumptions: 2011 SOA Intercompany Experience Study: Long Term Care Experience Basic Table Development (April 2015)
- Mortality assumptions: Individual Annuity Mortality 2012 with Selection
- Interest rate assumptions: 5% (other scenarios checked)
- Lapses assumptions: Slightly lower lapses than term insurance grading into LTC level lapses at age 65
- Expenses: Industry level administration expenses
- Inflation not built-into rates; periodic guaranteed purchase offers
- Commissions/Marketing Expenses: Paid on level premium with no addition first year commissions paid at age 65



Regulatory Issues and Questions

Fred Andersen



- Alignment with state government initiatives:
 - Help address long-term care needs of expanding number of people who will be age 85 and older by 2030
 - Contributes to awareness of the need to plan for their long-term care
 - Development of more affordable products to help middle income Minnesotans pay for LTC
- Lifestage isn't necessarily for everyone;
 - Everyone's needs are different;
 - It adds to the variety of products;
 - It gets younger people more aware and to start planning for LTC



- Legal questions
- Is this life with a rider; long-term care or something new?
 - Minnesota law allows combo products that include LTC
 - MN Statutes Section 60.A.06, Subd. 3
 - Other states may have similar rules?
- Other questions:
 - Does the NAIC LTC Model Act apply?
 - If not can it need to be modified so it does?
 - Inflation requirement?
 - Cash value?
 - Loss ratio?
 - Guaranteed renewable or non-cancellable?



– Other questions:

- What would it take to make this tax and partnership qualified?
- What about reserves?
- What consumer protections apply?



- NAIC LTC Product Innovation Subgroup
 - Charges
 - Assessment of role of private insurance given impact of LTC on state budgets / Medicaid
 - Review alternative products being developed / sold
 - Consider viability
 - Discuss other products
 - Examine whether amendments are needed to current NAIC models or regulations
 - Or Fed action
 - First call was 2/22; Second was yesterday
 - Discussing LTC financing policy recommendations

Lifestage Product Concept-status



Progress to date

- Due diligence has been conducted with several carriers- Positive carrier reactions
- Interstate Compact to identify potential regulatory barriers- on first blush no show stoppers
- Interest from several states in addition to MN: CA, and NE
- Positive reactions from several organizations including AARP and NCOA
- Positive reactions from internal consumer research in MN

Lifestage product concept-Next Steps



- Consumer product evaluation research
 - Qualitative
 - Quantitative
- Continue to meet with carriers-seeking MN potentially other state opportunities
- Developing distribution options
- Look at using MN as a pilot



- Questions, comments, thoughts