

Hot Topics in Long-Term Care: Issues and Trends in Policy Design

LTCi Producers Summit

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2006 Sales Characteristics

2007 Broker World Survey

- Sales: \$565 million (2006) v. \$611 million (2005)
 - 7.5% Decrease
- Comprehensive Coverage (91.9%)
 - Facility Only (2.6%)
 - Home Care Only (5.5%)
- Tax-Qualified (98.2%)
- Average issue age = 58.0 (v 58.6 in 2005)

2006 Sales Characteristics

2007 Broker World Survey

- 85.7% with a form of inflation protection
 - 47.6% Compound for Life
 - 19.4% Simple for Life
 - 6.0% Other Compound or Simple
 - 12.6% Future Purchase Option
- 19.8% lifetime benefit period (down from 33.2% in 2004)
- 76.4% 90+ day elimination period (up from 70.6% in 2004)
- 12.6% of sales in multi-life situations

Common LTC Features Available

Source: 2007 Broker World Survey of 38 Products Sold by 23 Carriers*

- Alternate Plan of Care (34)
- Care Coordination (36)
- Caregiver Training (34)
- Endorsed Group Discount (33)
- Bed Reservation (34)
- Waiver of Premium for Home Care (33)
- Restoration of Benefits (31, most optional)
- Return of Premium on Death (28)

* Numbers in parentheses give number offering benefit

Common LTC Features Available

Source: 2007 Broker World Survey of 38 Products Sold by 23 Carriers*

- Return of Premium on Lapse
- Equipment, home modification
 - (23 with separate limit, 9 in APC)
- Two Spouse Discounts – 10% to 40% (38)
- One Spouse Discount – 10% to 20% (28)
- Joint Waiver of Premium (26, most optional)
- Limited Pay Options (26)
- Survivorship (27, most optional)

* Numbers in parentheses give number offering benefit

Common LTC Features Available

Source: 2007 Broker World Survey of 38 Products Sold by 23 Carriers*

- Non-Qualified Policies (6)
- Shared Care Benefits (25, all optional)
- Partial or Full Cash Benefit
 - (2 disability models, 2 optional)
- Informal Care – incl or excl family (27)
- Monthly or Weekly HHC
 - (12 standard, 17 with extra premium)
- Preferred Risk Discounts – 10% to 20% (33)

* Numbers in parentheses give number offering benefit

LTC Trends

- Average issue age dropping
- Fewer buying lifetime benefit period
- More buying inflation protection
- Fewer buying short elimination periods
- More buying comprehensive coverage
- Some moving to simpler coverage with fewer options; others to more complex coverage
- Combination product market growth expected

Restoration of Benefits

Consumer Perspective

- Opportunity for greater benefits if claimant not chronically ill for 180 days
- Appealing consolation on limited benefit period plans compared to lifetime benefit period plans
- Maybe more perceived value to consumer than actual cost to insurer

Restoration of Benefits

Pricing Issues

- Automatically included or for extra cost
- Need data relative to recovery and “re-claim” rates
- Generally not high cost since likelihood of recovery declines as the amount of benefit used increases
- Often flat premium, regardless of age
- Issues with sales practices in the past – encouraged shorter BP

Return of Premium

Consumer Perspective

- Sales appeal as it eliminates “use it or lose it” nature of LTC, but expensive
- May return on “net” or “full” basis – cost implication
- May grade to 100% by a specified duration or attained age
- May grade from 100% to 0% from age 65 to age 75
- May be on second death in joint life situation

Return of Premium

Pricing Issues

- Puts greater reliance on accuracy of mortality assumption
- If claims offset, pricing more complicated
 - Need paid claims (not just incurred claims)
 - Consideration for recovery and cumulative claims if more than one claim episode

Spouse and Family Discounts

Consumer Perspective

- Encourages both to buy
- Greater equity in cost, due to lower usage among married insureds
- Should discount be given, even when only one buys?
- Should discount go away when person is no longer married?
- Should discount be given for “co-habitation”?

Spouse and Family Discounts

Pricing Issues

- Favorable morbidity due to being married “wears off” over time, due to death and divorce
- When compared to single population, married group is 50/50 male/female, vs. 70-80% female
- The two factors combined result in 25-30% savings (any discount more than that is market driven)
- Less savings when only one of married couple buys (health reasons)
- Relative “guarantee” of marriage, vs. “live-in” or family arrangements

Joint Waiver of Premium

Consumer Perspective

- May waive premium for facility and home care or only facility care
- Attractive part of joint policy “package”
- May be available automatically, at additional cost or only with shared care benefits

Joint Waiver of Premium

Pricing Issues

- May use first principles or aggregate pricing approach
- Need “link” between two insureds to price accurately
- If only waive for facility care, ignore incidence for home care

Limited Pay & Accelerated Premium Options

Consumer Perspective

- Variety of options provides flexibility
 - 1, 5, 10, or 20 pay
 - To 65
 - Half as much at 65, 70
- Shorter limited pay periods reduces chance/effect of rate increase

Limited Pay & Accelerated Premium Options

Pricing Issues

- Non-can once paid up
- Assume different lapse behavior than lifetime pay
- Should there be a different morbidity expectation?
- Different commission or expense structure/level?
- Larger reserve build-up - interest assumption has greater impact

Survivorship Benefits

- This benefit waives premium for surviving spouse after first spouse dies. Usually – death of first spouse must occur after both have been in force at least 5 or 10 years.

Consumer Perspective

- Could be reduced ability to pay after death of one spouse (but there's also a reduced premium)
- Sales appeal

Survivorship Benefits

Pricing Issues

- Risky
- Puts great reliance on accuracy of mortality assumption
- Somewhat difficult to price
- Difficult to reserve for (include on average basis in active life reserve, or set up paid up reserve at time of death of first spouse?)

Shared Care Benefits

- Included on 40% of limited benefit period sales in 2006, offered by 70% of insurers

Consumer Perspective

- Allows for benefit flexibility, but may be at the expense of the other spouse
 - May be requirement that portion of spouse's benefit is untouched
- Third pool design retains benefit for each insured
- Joint waive may automatically apply
- Not allowed under Partnership program

Shared Care Benefits

Pricing Issues

- Is premium “permanent extra \$” or “Extra while both alive”?
- Married discount still applies
- Approximate Pricing Approach
 - Cost of additional pool design = individual BP with EP length of initial pool, but with higher frequency / 2 (per insured)
 - Cost of two share two = 2 x individual BP, but with higher frequency
- First principles approach requires joint contingencies or simulation

Cash Benefits

Consumer Perspective

- Allows for much more flexibility in setting up benefits (e.g., use of unapproved caregivers, family members, etc.)
- Allows for changes in future methods of care giving (new facilities, more automation, etc.)
- Added flexibility comes with great responsibility and greatly increased cost

Cash Benefits

Pricing Issues

- Added cost, due to: 1) loss of “usage factor”, 2) payments made for 7 days/week (i.e., no days salvage), 3) payments made for full maximum (i.e., no cost salvage), 4) anti-selection and malingering
- More difficult to monitor on-going claims and to get people off of claim
- Any reason for married discount on cash policy??

Informal Caregiver Coverage

- Benefit pays for some care given by non-licensed caregiver. Could be limited to non family member, could be limited to x days per year, could require formal invoices to be submitted for the cost of the care, etc.

Consumer Perspective

- Allows for flexibility in using neighbor or other trusted person known to them

Informal Caregiver

Pricing Issues

- Cost varies considerably depending on limitations placed on the benefit in the policy (e.g., family member?)
- Some portion of the loads applied for a disability policy will also apply to the informal caregiver benefit (e.g., removal of the “usage factor”)
- Usually very limited benefits, or the cost will approach that of the cash policy

Monthly or Weekly HHC

Consumer Perspective

- For reimbursement policies, unused daily amount can fund costs over daily amount on other days
- Allows more flexibility in scheduling services while maintaining “full” reimbursement
- May be automatic, at additional cost, or “reward”
- Greater value if policy has inflation protection
- Lower daily amount needed

Monthly or Weekly HHC

Pricing Issues

- Mix of facility vs. home care important
- Translation of maximum benefit from daily to weekly/monthly basis reduces/eliminates “salvage”
 - Compare actual expected charges to weekly/monthly max
- Cost less if no inflation protection on the policy

Discounts Given – Risk, Group

- Risk classes offered vary by company from 2 classes to 6.
- Affinity group discounts usually in 5 to 15% range.

Consumer Perspective

- Provides great opportunity for lower rates
- But, final rate could be different from quoted rate

Discounts Given – Risk, Group

Pricing Issues

- Little data available to determine effect that a specific condition has on lifetime morbidity
- Thus, pricing generally done on “composite” premium and “composite” morbidity basis
- Thus, mix of actual sales by risk class compared to assumed mix becomes critical
- Group: discounts can't be justified by better morbidity. Must come from reduced commissions.

Pay for ALF Room and Board?

Consumer Perspective

- Many view ALF as being a variant of a nursing home, so believe room and board should be paid

Pay for ALF Room and Board?

Pricing Issues

- ALF getting to be large portion of claims (40%).
- Length of stay longer on ALF, because it's the person's "home"
- Person sells house, moves to ALF, and pays room and board until becoming disabled. Then...is it the insurer's duty to start picking up the R&B, or should they just pay for the HHC received?
- If company doesn't pay R&B, will it lead to more people just using more expensive NH services?

Attained Age Rating

- NAIC Model Regulation allows for attained age rating up through age 65, but requires issue age rates thereafter.

Consumer Perspective

- Could provide a more affordable way to fund LTC during the working years
- Ability to pay increases depends heavily on the attained age rating scale

Attained Age Rating

Pricing Issues

- Many possible attained age scales (varying by number of years of attained age increases, magnitude of increases, how age 65 premium compares to true issue age 65 premium)
- State acceptance?
- Commission savings, if first year commission percentage isn't increased
- Does it increase lapse rates?

Calendar vs. Service Day EP

Consumer Perspective

- Calendar day much clearer, intuitive
- Calendar day EP more flexible – can be satisfied with family or informal care
- Calendar day EP may require minimum number of services per week/month
- Evidence of formal services required for service day – hassle for claimant
- Complicates matters if EP for Facility and HHC are on different basis

Calendar vs. Service Day EP

Pricing Issues

- Assumption for service frequency key assumption to service day EP pricing
- Bigger cost difference for longer EPs and less severe conditions (where less frequent care is needed)
- Potential anti-selection issue with calendar day

Zero Day Elimination Period on HHC

Consumer Perspective

- Sales appeal – no wait for benefits!
- Claimant's benefits can stop upon entering a facility

Pricing Issues

- Consider higher frequency than for other EPs and anti-selection if not tied to care advisor use

Double Benefit for Accidents

Consumer Perspective

- Attractive to younger issue age groups

Pricing Issues

- Knowing what proportion of LTC claims can be attributed to an accident at various ages
- Claims issues of determining whether a “fall” is an accident

Million Dollar Rider

- John Hancock's "Leading Edge" product, with 5 year plus \$1 million benefit option

Consumer Perspective

- Sounds great!

Million Dollar Rider

Pricing Issues

- Alternative to lifetime benefit period
- With younger issue age sales, the extra million dollars is not likely to be needed for 20-30 years, when it will be “worth” a lot less, in today’s dollars
- Can therefore cost less than true lifetime BP

Discussion/Questions