Understand And Explain LTCi Rate Increases

LTCi Producers Summit

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Session Agenda

- History – how'd we get here?
- Carrier considerations
- Dealing with existing clients
- Dealing with new prospects

History – 1990s

- Ultimate lapse 5.0% or higher
- High interest rates
- Competitive pricing – optimistic attitude
- Home care and ALF gained in popularity

History – 2000 and after

- In late 1990s, saw some rate increases
- Regulator & industry response – rate stability
- “Corrections” to pricing assumptions
  - Lapse
  - Interest
  - Morbidity – not so much
- Higher new business premiums

“Corrections”

Voluntary Lapse Rates

- Past: 10, 8, 6, 5% for durations 1 to 4+
- Present: 5, 4, 3, 2.1, 1.5, 1.0% for durations 1 to 6+
- Premium Impact?

"Corrections"–Voluntary Lapse Premium Impact

Without IP			
IA	Past	Current	% Chg
45	$320	$400	25%
65	904	1,057	17%
75	2,042	2,156	6%

With IP			
IA	Past	Current	% Chg
45	$549	$970	77%
65	1,213	1,555	28%
75	2,283	2,507	10%

With lapse assumption changed for experience and reserves.

“Corrections”

Investment Earnings Rate

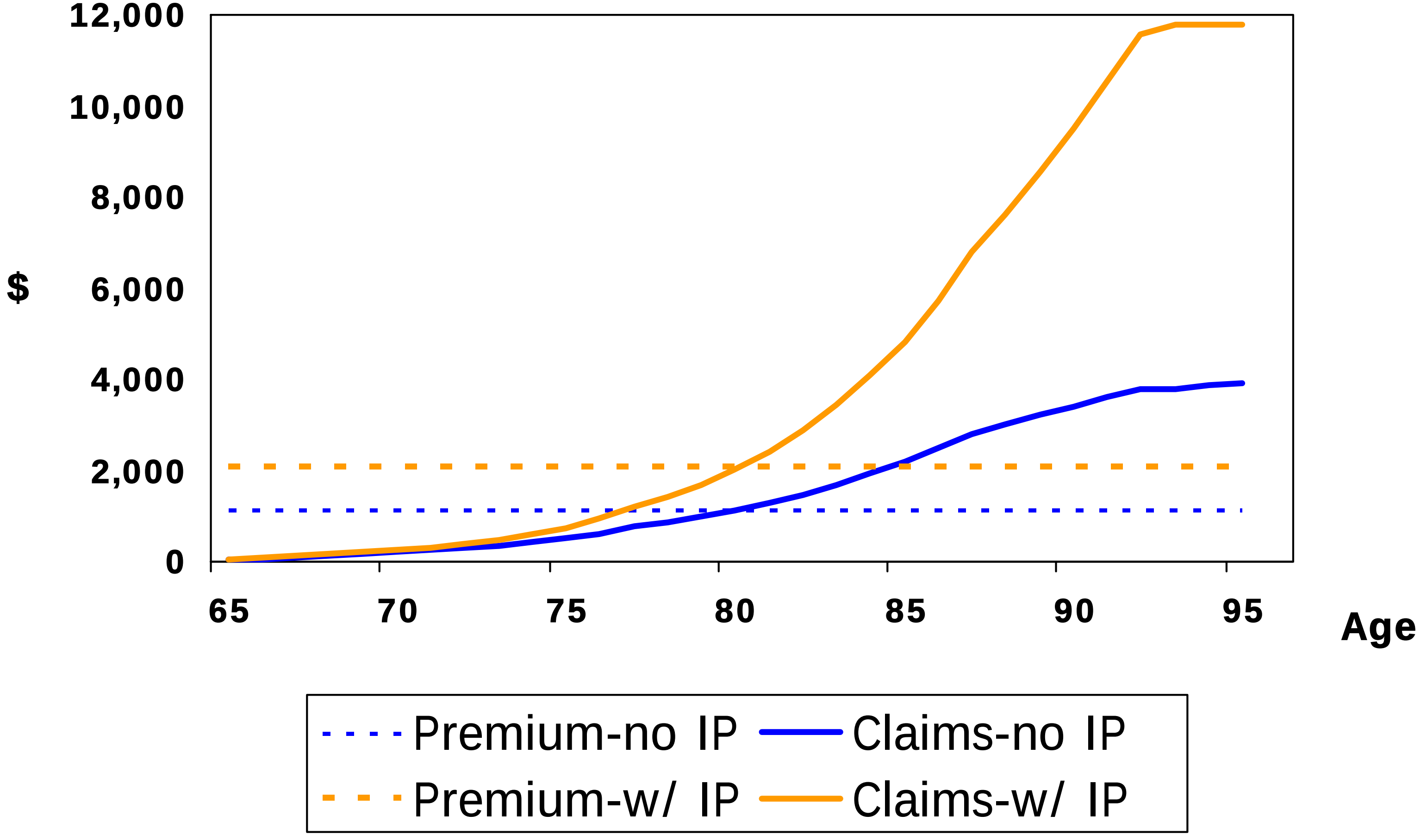
- Past: 7.5%
- Present: 5.0%
- Premium Impact?

"Corrections" – Interest Premium Impact

Without IP			
IA	Past	Current	% Chg
45	$320	$372	16%
65	904	1,052	16%
75	2,042	2,291	12%

With IP			
IA	Past	Current	% Chg
45	$549	$714	30%
65	1,213	1,467	21%
75	2,283	2,607	14%

Morbidity Cost vs. Premium



Carrier Consideration: Timing

- Why or why not?
  - Open vs. Closed block
  - Loss Ratio Level
  - Field reaction
- State’s reaction
- Multiple increases
- Impact of waiting

Rate Increase with Low Loss Ratio? Example 1

	Actual Experience		
	A	B	C = B / A
Policy Year	Earned Premium	Incurred Claims	Loss Ratio
1	100,000	2,365	2.4%
2	93,337	7,061	7.6%
3	88,174	7,805	8.9%
4	84,906	20,555	24.2%
5	82,221	20,499	24.9%
6	79,735	37,934	47.6%
7	77,485	43,507	56.1%
Total	605,858	139,727	23.1%

Does this business need a rate increase?

Rate Increase with Low Loss Ratio? Example 1

	Actual Experience			Expected Experience			
	A	B	C = B / A	D	E	F = E / D	G = C / F
Policy Year	Earned Premium	Incurred Claims	Loss Ratio	Earned Premium	Incurred Claims	Loss Ratio	Actual to Expected Ratio
1	100,000	2,365	2.4%	100,000	7,168	7.2%	0.330
2	93,337	7,061	7.6%	91,117	11,285	12.4%	0.611
3	88,174	7,805	8.9%	83,852	13,204	15.7%	0.562
4	84,906	20,555	24.2%	77,923	15,293	19.6%	1.234
5	82,221	20,499	24.9%	73,108	17,811	24.4%	1.023
6	79,735	37,934	47.6%	68,514	20,360	29.7%	1.601
7	77,485	43,507	56.1%	64,131	23,065	36.0%	1.561
Total	605,858	139,727	23.1%	558,644	108,186	19.4%	1.191

Consider Actual Experience compared to Expected

Rate Increase with Low Loss Ratio? Example 2

	Actual Experience			Expected Experience			
	A	B	C = B / A	D	E	F = E / D	G = C / F
Policy Year	Earned Premium	Incurred Claims	Loss Ratio	Earned Premium	Incurred Claims	Loss Ratio	Actual to Expected Ratio
1	100,000	1,051	1.1%	100,000	7,168	7.2%	0.147
2	93,337	3,138	3.4%	91,117	11,285	12.4%	0.271
3	88,174	3,469	3.9%	83,852	13,204	15.7%	0.250
4	84,906	9,136	10.8%	77,923	15,293	19.6%	0.548
5	82,221	9,111	11.1%	73,108	17,811	24.4%	0.455
6	79,735	16,859	21.1%	68,514	20,360	29.7%	0.712
7	77,485	19,337	25.0%	64,131	23,065	36.0%	0.694
Total	605,858	62,101	10.3%	558,644	108,186	19.4%	0.529

Same Question: Does this business need a rate increase?

Rate Increase with Low Loss Ratio? Example 2

	Actual Experience			Expected Experience			
	A	B	C = B / A	D	E	F = E / D	G = C / F
Policy Year	Earned Premium	Incurred Claims	Loss Ratio	Earned Premium	Incurred Claims	Loss Ratio	Actual to Expected Ratio
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34	14,041	136,293	970.7%	4,276	55,586	1299.8%	0.747
35	12,318	132,865	1078.6%	3,649	52,849	1448.5%	0.745
36	10,734	128,639	1198.5%	3,093	49,851	1611.6%	0.744
37	9,289	123,335	1327.7%	2,605	46,633	1790.2%	0.742
Life	1,847,852	2,878,457	155.8%	1,243,922	1,658,151	133.3%	**1.169**

Consider a complete lifetime projection

Rate Increase with Low Loss Ratio? Example 2

	Actual Experience			Expected Experience			
	A	B	C = B / A	D	E	F = E / D	G = C / F
Policy Year	Earned Premium	Incurred Claims	Loss Ratio	Earned Premium	Incurred Claims	Loss Ratio	Actual to Expected Ratio
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Life	1,847,852	2,878,457	155.8%	1,243,922	1,658,151	133.3%	**1.169**
Life w/ int	1,050,594	899,925	85.7%	668,111	404,087	60.5%	**1.416**

Consider a complete lifetime projection–with Interest

Expected interest rate=7.5%, Actual interest rate = 5.0%

Carrier Consideration: Increase Amount

- Continued uncertainty of “correct” assumption
- Rate stability regulation?
- State’s reaction
- One shot or series?
- New business rate as cap
- Pooling requirements
- New business rate as cap

Impact of Waiting

Consider Example 2: Lifetime A:E = 1.416

Rate increase to restore 60.5% LT LR:

- If in Duration 1 → 41.6%

  (Higher premium from issue)
- If In Duration 5 → 60.4%%
- If in Duration 8 → 80.2%
- If in Duration 10 → 98.0%
- If in Duration 12 → 121.7%

Carrier Consideration: Communication

- DOI
- Agents
- Consumers
  - Posturing for future increases
  - Variations by state

Shifting to Claude’s presentation

Communicating with In Force Clients Facing a Rate Increase

I'll discuss a general approach, but your approach may vary among clients:

- Clients have different temperaments
- You have different relationships with different clients and they may be different than my relationships
- Clients have different finances, health, etc.

Communicating with In Force Clients Facing a Rate Increase

Generally:

1. Your clients should learn about the rate increase from you, not from the insurer or someone else
2. Most of your work is done before discussion
3. May be well-received
   - Be sympathetic
   - If you personally have borne a rate increase, let them know
   - I recently told a client about a major rate increase and she responded by sending me a lead

Communicating with In Force Clients: How Has The Environment Changed?

1. Are there new types of caregivers in the community?
2. How has the price of care changed?
3. Have tax laws changed since they bought?

These issues lay the basis for discussions with all of your clients

Communicating with In Force Clients: Review the Carrier Characteristics

1. Review the original policy provisions. What is unique? Have favorable changes been made? ALFs? Stand-by? Inorganic?
2. Review carrier's original and current financial strength
3. Refresh yourself regarding competition at that time and what has happened with those other carriers.

Communicating with In Force Clients: Review the Carrier's Practices

1. What if marital status changes or other family members buy?
2. What if one spouse lapses?
3. Can they reduce cost by joining an association, working for a company with a discount, or buying another type of insurance from the carrier?
4. Can underwriting classification improve without changing issue age?
5. What benefit reductions are permitted by the carrier to reduce cost? E.g., from comprehensive to NHO?

Communicating with In Force Clients: Review Their Policy and The Sale

1. Review their existing policy design.
2. Determine their ***current*** daily benefit.
3. Check their underwriting classification.
4. How frequently do they pay premiums?
5. What riders and other special features exist?
6. Do they have unintended lapse protection?
7. Do they have other coverages with this insurer?
8. Did they consider other carriers?
9. What concerns did they have when they bought?

Communicating with In Force Clients: Have Their Circumstances Changed?

1. Current age and health
2. Has their marital status or address changed?
3. How has their financial picture changed?
4. Has their tax status or employment changed?
   (Individual tax deductions are more attractive as we age)
5. Has their family [health] status changed?
6. Are they more or less dependent on commercial caregiving? Retired spouse; grand-children...

If you don’t know, ...

Communicating with In Force Clients: Review Current Suitability

1. If coverage is insufficient, be prepared to discuss this issue. Run illustrations to complement existing coverage.
2. If original policy was issued within the past two years to a young issue age, replacement might be appropriate, ESPECIALLY if design was poor.

Communicating with In Force Clients: Explain Why This Has Happened

1. Covered by Amy earlier
2. Some clients don’t need/want to know, but be prepared to explain

Communicating with In Force Clients: How Can They Afford the Increase?

1. Insure other family members to reduce cost?
2. Improve their underwriting classification?
3. Tax savings possible?
4. Association discount or employer-pay?
5. Pay annually?
6. Other insurance no longer needed? Or entitled to a discount?

Communicating with In Force Clients: How Can They Afford the Increase?

7. Might other family members help pay?
8. Unnecessary LTCi features?
   - Survivorship/Joint WP/shared care but only one insured now
   - Comprehensive, but could not stay at home?
9. Reduce coverage: which would you suggest?

Communicating with In Force Clients: Other Family Members

1. Have they added a spouse or partner?
2. Maybe their partner did not qualify as a partner originally?
3. Is their spouse uninsured or insured separately?
4. Kids can help pay?
5. Divorced? Discontinue one spouse? Pay via alimony?
6. If another family member (now older) buys, can they get a discount?

Communicating with In Force Clients: Tax Issues?

1. Has tax law changed since they purchased?
2. Has their situation changed?
3. Do they own a business? Would a business pay?
4. Age increases Medical & Dental premium deduction. Other health costs also increasing?
5. When retired, will AGI drop?
6. State income tax deductions. Example: Missouri
   - State tax is 6% in excess of $9000 income
   - 6% of 130% = 7.8%. So, if tax break didn't exist at issue, it offsets more than 25% of the increase.

Communicating with In Force Clients: If They Have a ROP Rider, Point Out:

1. Good you’re not on claim (wouldn't care about increase)
2. You will either use the policy or not, right?
3. If you knew you’d use the policy, you’d keep it?
4. So, you fear paying many years, never using it?

Communicating with In Force Clients: If They Have a ROP Rider, Point Out:

5. If so, all premiums (incl. increases), go to heirs.
6. So the company cannot really get the rate increase from you unless you go on claim.
7. As long as you can afford the cash flow, all you lose is the investment income you could earn.

Communicating with In Force Clients: If They Have Limited Pay:

Example: age 55, bought 10-pay, now 62

- They were wise to buy limited pay.
- Only 3 years left to pay; 70% done.
- Had they purchased lifetime premiums, they might have 28 years left to pay; only 20% done.
- Less chance of another increase.

Communicating with In Force Clients: If They Have Survivorship or Jt. Waiver

1. Explain when Survivorship or Joint Waiver of Premium would apply
2. Do such circumstances exist or are they likely to occur soon?
3. If beyond [10] years without claim, survivorship may be nearly certain to occur sometime.
4. They/you were wise to pick this design.

Communicating with In Force Clients: Compare to a New Policy

1. New age and current daily benefit
2. Current UW and marital status, if known.

    Run old UW classification, too.

    Note: old UW class might not apply even if health has not changed.
3. Clearly the cost of a new policy would be much higher.
4. Addresses retention rather than replacing.
5. They made a GREAT decision to buy.

Communicating with In Force Clients: Compare to Lapsation, Projecting Claim

1. On claim, how fast would they get back past premiums and future premiums?
2. Project benefits to the future, based on current age
   - If 65 or younger, I project to age 75.
   - If 66-75, project I 10 years.
   - If 76-80, I project 5 years.
   - If 81+, I maybe don't project at all.

Communicating with In Force Clients: Determine Life Expectancy

- Based solely on their age and race:

http://www.cdc.gov/nchs/data/nvsr/nvsr53/nvsr53_06.pdf

- Based also on health, habits, family history, etc.

http://gosset.wharton.upenn.edu/mortality/perl/CalcForm.html

http://www.nmfn.com/tn/learnctr--lifeevents--longevity

http://www.deathclock.com/

http://channels.netscape.com/atplay/sergames.jsp?id=atplay_lifelinecalc

Communicating with In Force Clients: Based on Life Expectancy, Show Them:

1. Their current life expectancy: x years
2. New premium level: $yyyyy/year
3. Total future premiums to life expectancy: $zz,zzz
4. Potential annual benefit (projected): $xxx,xxx
5. Total bucket of money available: $www,www
6. Days of claim at life expectancy to recover all premiums
7. Days of claim at life expectancy to recover FUTURE premiums

    Note: if they lapse, they lose the value of all past premiums.

    So it makes sense to look at recovering their future premiums.

    Their current decision is about the future premiums.

Communicating with In Force Clients: Be Prepared to Explain Why the Increase has Occurred

- Technical Explanation from Amy
- Claude’s approach

Communicating with In Force Clients: Could Lead to More Opportunities

1. Explain to their financial advisors why this has occurred and how they should discuss such increases with clients
2. Supplementary coverage
3. Referrals to family members
4. Referrals to businesses/associates
5. Have friends encountered LTC in their families?
6. Speaking opportunities to clubs, etc.
7. etc.

Communicating with New Clients Choose Carriers:

1. Whose pricing, underwriting requirements and decisions, and provisions appear conservative.
2. Likely to stay in LTCi business (do their own admin).
3. Ability/reasons to avoid rate increase: financial strength; multi-line
4. Stable management/positive attitude
5. Evidence of strong claims record

Use knowledgeable general agent to:

- help select carriers
- provide explanation to you and to prospects

Communicating with New Clients Explain history & what has changed

1. Interest and persistency
2. Underwriting cognitive
3. MIB
4. Actuarial certification (moderately adverse)
5. Future disclosure, contingent non-forfeiture, stop sales
6. Use a knowledgeable general agent

Questions / Discussion