Partnership LTC Insurance Challenges:

Special Topics in Program Development

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The Long Term Care Partnership Summit

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Views from Insurers And the States

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Background

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- ►DRA did not specify the “grandfathering” of existing LTC insurance policies.
- ►Many policies already in-force satisfy the DRA requirements for Partnership, but were issued prior to a state’s program implementation date.
- ►Allowing an “exchange” is a way to bring existing policies in to PQ status.
- ►Rules and requirements vary by state
- ►Policies and procedures vary by insurer

Types of Exchanges

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- ►"Like for like" – insured has coverage on a policy form that is PQ certified and has the type of inflation protection required for their issue age per DRA.

- ►"Coverage Change" – insured has coverage on a policy form that is PQ certified but does not have the "right" type of inflation protection.

- ►"Policy Change" – insured has coverage but it is not on a policy form that is PQ certified. The type of IP they have may or may not also need to change.

Exchange Requirements

- ”Like for Like” requires the least effort. Must provide disclosure notice(s), and amend the policy by rider, endorsement or other means to make it PQ.
- ”Coverage Change” requires additional step of adding the proper IP rider, underwriting and an attained age rate adjustment.
- ”Policy Change” requires replacement of the insured’s existing policy with a PQ-certified form and may include other IP-related changes.

State Requirements Vary

- Some states require the offer of exchanges, most typically back to a specified date.
- Some states allow, but do not require, exchanges.
- Some states specify that exchanges must provide credit for past insured status where coverage increase is required.
- Some states specify how the exchange can be made (e.g., by endorsement/rider, new policy issue).
- No state prohibits exchanges.

State Perspectives

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- ►Survey states with regard to their views on implementing exchanges.
- ►Twenty-five states responded.
- ►Focus on exchanges, but ask about othe implementation concerns.

Implementation Concerns

- ►States asked to identify top 3 implementation concerns.
- ► <u>Exchanges</u> are not the top concern but was cited by 58% of states as one of their top three implementation concerns with Partnership.
- ►States more concerned with agent training (63%)

Other Concerns

- ► State responsibility for raising consumer awareness (46%)
- ► Cost savings to Medicaid (46%)
- ► Verifying asset disregard (37%)
- ► Level of interest in Partnership will be too low (25%)
- ► Certification process (25%)
- ► Program interest will be too high (4%)

Status of Exchange Activity

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- Just over 40% of the states say that carriers have begun the process of making exchanges in their state.
- Another 16% say they have not done so.
- The rest say they are not sure or have no way of knowing whether exchanges are taking place.

State Requirements

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- ►States are evenly split between those that allow but do not require exchanges and those that require the offer of exchanges (46% for each)
- ►Just under 30% of states only allow exchanges if the coverage already meets all the requirements for a PQ policy ("like for like" exchange).
- ►Just over one-third allow exchanges where a coverage change is required (e.g., add inflation protection).
- ►17% of states require exchanges but not to insureds in claim or satisfying the elimination period.

How Exchanges are Offered

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- Most states expect the insurance company home office to offer the exchange through correspondence with eligible insureds (40%).
- While no state cited agents as a "starting point" for offering exchanges, 36% of states felt that some combination of home office and field force could be involved in handling exchanges.
- Twenty percent of states expect the exchange to take place any way that the company so chooses.

Handling Exchanges

- Most states (71%) allow the insurer to determine the most appropriate way to handle an exchange.
- 21% of states ask insurers to effect the exchange by canceling the current policy and replacing it with one that is PQ.
- The remaining 8% allow insurers to use a rider or endorsement to make the exchange.

Important Concern

► States' most important concern with exchanges is that insureds won't understand the availability and advantages of making an exchange (52%).

► States are concerned that carriers either won't offer exchanges unless required to do so (20%) or that they won't give premium credit for past insured status when making an exchange (16%).

► To a lesser degree, states worry that agents aren't adequately trained to handle exchanges (8%)

► None of the states felt that carriers would be too aggressive in the offer of exchanges.

"Take Up" Rate for Exchanges

- ►State estimates varied from 5% to 85%.
- ►Some states worried that while people would want a PQ policy they would be unable or unwilling to pay the higher premium associated with a newer policy form and/or additional inflation protection.
- ►Some states simply did not want to hazard a guess on "take up" for exchanges.

Insurer Perspective

- Asked 30 insurers registered with Partnership reporting system similar questions about Partnership implementation and exchanges.
- Major concern (50%) is with exchanges.
- Agent training was the next most significant concern (17%)
- Group issues (17%)

Exchange Status

- ►One-fourth of insurers have begun offering exchanges, but only in states that require the offer.
- ►One-third of insurers also offer exchange where it is not required.

Offering Exchanges

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- ►Most insurers (58%) are only offering exchanges of the "like to like" type.
- ►One-fourth of them will offer exchanges of the "coverage change" type.
- ►One-third are only offering exchanges where a state requires it.
- ►No insurer reported that they will entertain agent/insured requests for exchanges in other states if the insurer's policy is to only do exchanges in states where it is required.

How Exchanges Are Offered

- ►Most are handling exchanges through the home office (67%)
- ►One carrier automatically sends out a letter, PQ disclosure, and a rider to anyone with qualifying “like for like” coverage.
- ►None are asking agents to contact existing insureds about exchanges.

Processing Exchanges – Development

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► **System and Process Development Effort**

- High - 46%
- Medium – 46%
- Low – 8%

► **Automation Plan**

- Plan to Fully Automate - 36%
- Plan to Partially Automate – 36%
- Other responses include No Plans to Automate or Not Sure

Most Important Concerns

- **Effort to process exchanges with few “take ups” (73%)**
- **Cost and effort of implementation (64%)**
- **Understanding state rules and requirements (46%)**
- **Other concerns:**
  - Underwriting/re-pricing exchanges requiring coverage change (36%)
  - Explaining exchanges to insureds (27%)
  - Timeframe in which to make exchanges (18%)
  - Variations in state requirements (9%)

Effort to Process Exchanges

►**Processing exchanges seen as slightly easier than system and process development**

- 46% - “medium” effort
- 27% - “high” effort
- 17% - “low” effort

Challenges of Development and Processing – Administrator's Perspective

- ► Variation in queries to identify those eligible for exchange for like-for-like, coverage change and policy changes based on state specific dates and rules
- ► Continuation of accrued benefits and aging across policy forms (Nonforfeiture, Inflated Maximums, Return of Premium Upon Death, Limited Pay, etc.)
- ► Commissions – replacement rate commissions paid on policy change and 1st year commissions paid only on increased coverage
- ► State-imposed timeframes for exchange offers (6 to 18 months from carrier marketing date)

Challenges of Development and Processing
Administrator's Perspective

- ► Number of product generations a carrier must deal with the further back the state-specified exchange start date
- ► Identification as exchange/replacement for state-specific annual reporting
- ► Reporting (UDS vs state-specific)

Estimating “Take Up”

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- ►Range from 2% to 100%
- ►About half of carriers estimate 5% or less
- ►20% estimate 10% to 20%
- ►Anticipate lower “take up” where exchange is NOT “like for like”

One Company's Experience

- ►Exchange offer, as required per one state, went to over 6,000 insureds
- ►20% of them contacted customer service about it
- ►80% of those inquiring also requested a quote for the exchanged coverage
- ►13% of those receiving a quote applied for the exchange and 98% of those requests were approved
- ►Net result: "take up" on exchange offer was 2%

How Exchanges are Reported

- It is always reported as an exchange (73%)
- It is considered an internal replacement (27%)
- None of the insurers said they would consider it as a new PQ sale even if a new policy form was required to make the change.

Current State Variations

Requirement Category	States with Specific Requirements	Not Addressed	Key State Specific Requirements
Exchange Date	13	14	• Range: 8/12/02 – 7/1/06 • Offer to be made: 30, 180, and 365 days after market date • Other: offer at policy renewal
Response Period to Exchange Offer	6	21	• Period required for response: 45, 90, 180, no < 120 days
Underwriting	15	12	• May be subject to underwriting or similar • Allowed for new or increased coverage only or similar • Not Permitted
Premium	15	12	• May be increased on new policy • Increase on new policy/coverage only or similar • Use original age/rate class only
Continuation of Accrued Benefits	7	20	• Accrual Required (6) • Accrual if no other changes than new effective date for PQ
Offer Letter Requirements	4	23	• State specific letter content, insured info or enclosures
Use of Riders, Endorsements, Amendments, or Schedule Page	18	9	• Specify use of one or multiples of listed items • Existing policy must be termed and PQ policy newly issued • Allow riders, etc. but also amend first page of policy/certificate
Reporting Requirements	5	22	• No special reporting but do NOT report as replacement • No special reporting but DO report as replacement • One-time report on annual Lapse & Replacement Report

Preferred Exchange Requirements

- No requirement for exchange preferred
- If required, mandating requirements identical to or as closely as possible to another state prevents development and process changes
- Ideally, no timeframe or generous timeframe (> 1 yr) for required offer of exchange
- Utilize UDS for data requirements

Issues for Agents

- ►Find out if the states in which you sell require carriers to offer an exchange.
- ►Become familiar with insurer rules for making exchanges so you can properly advise clients who ask.
- ►Treat an exchange as a potential “replacement” if a coverage change, underwriting or rate adjustment will be needed – i.e., proceed with caution.
- ►Help clients who ask to understand what it means to have Partnership coverage. Think about who benefits most and least when it comes to making an exchange.

Step-down Inflation Protection

- Policy provision or rider which specifies that the type and amount of IP varies as the insured ages.

- Designed to “match” DRA issue-age requirements. May exceed what is required in some cases.

- One Example:

  Compound 5% annual to age 61

  Simple 5% age 61 to 75

  No IP age 76 and beyond

Step-Down Inflation Protection (con't)

Concerns:

► Does insured understand how this IP "schedule" compares with how care costs may rise?

► Do they understand the "cost" vs. "benefit" comparison of this vs. other types of IP?

► Does the policy have a voluntary IP "downgrade" right anyway?

► Does this approach help or complicate the sale (from agent/consumer viewpoint)?

Advantages:

► Provides some equity for younger PQ buyers vs. older buyers re. the type of IP they must buy.

► No issue of "lose reserves" as would be the case with a voluntary IP downgrade.

► Makes having IP more affordable and tracks with DRA-requirements by age.

Step-Down Inflation Protection (con't)

- Some states will/may not allow this approach, while others may.
- Some states allow voluntary insured-initiated IP "downgrades" without jeopardizing PQ status.
- Others do not. And some states are remaining silent on one or both these issues.
- Know your state's rules when communicating with clients.
- Safest strategy – stick with DRA IP amounts and caution buyer to expect to maintain their IP to ensure PQ status.

Thank You

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Group Partnership: Issues to Consider

Jodi Anatole

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LTCI Producers Summit
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Overview of the Group LTCI Marketplace

- 10,100 employers have LTCI programs operational
- 2.2 million participants under these programs
- Average annual premium per group insured is $773

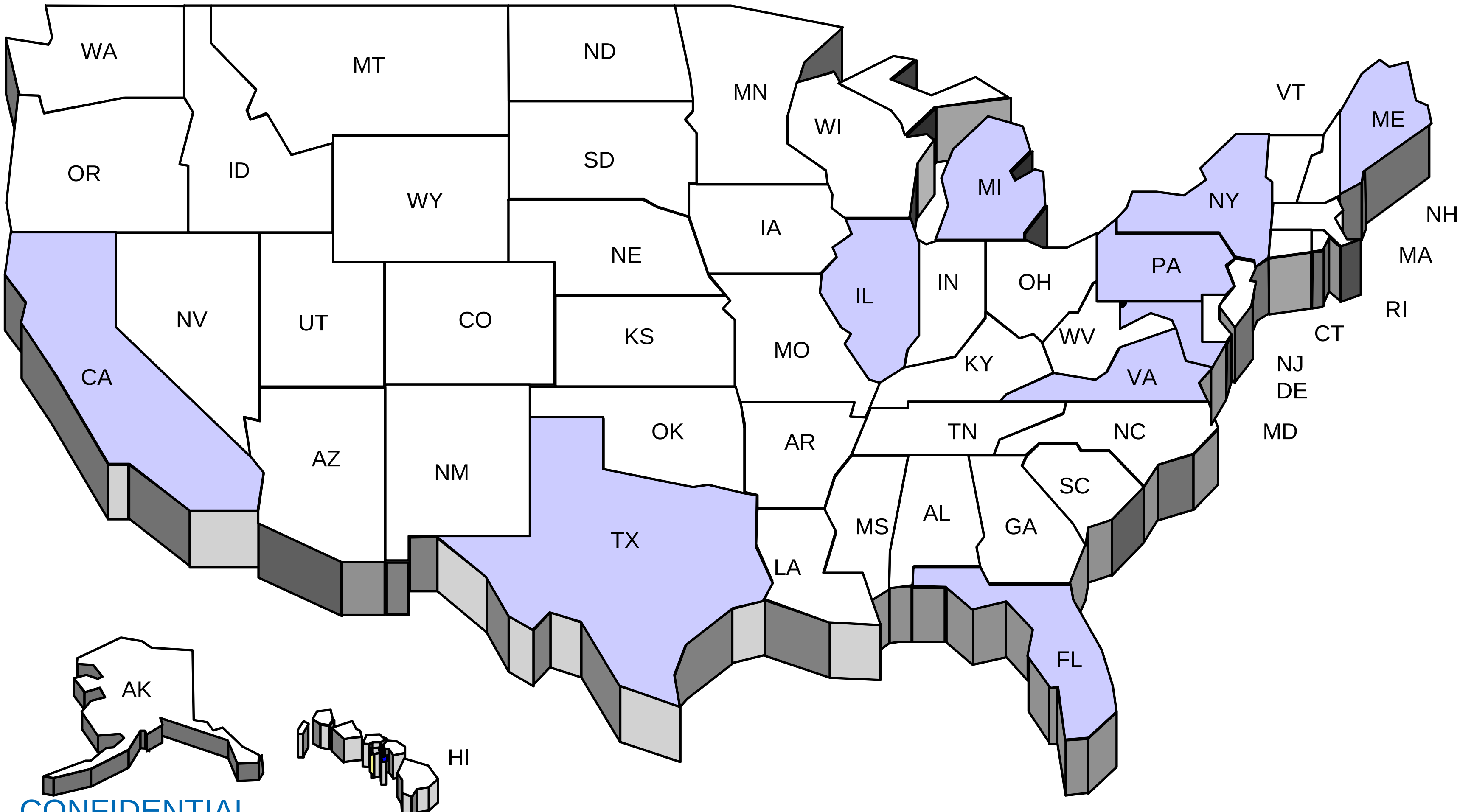
- Source: LIMRA 2008 Group Survey. Data on the following pages is from 2007 LIMRA Group Supplemental Survey

LTCI Group Buyer Demographics: Age

The average buyer of group LTCI in 2007 was age 47.

LTCI Group Insureds by State: Inforce

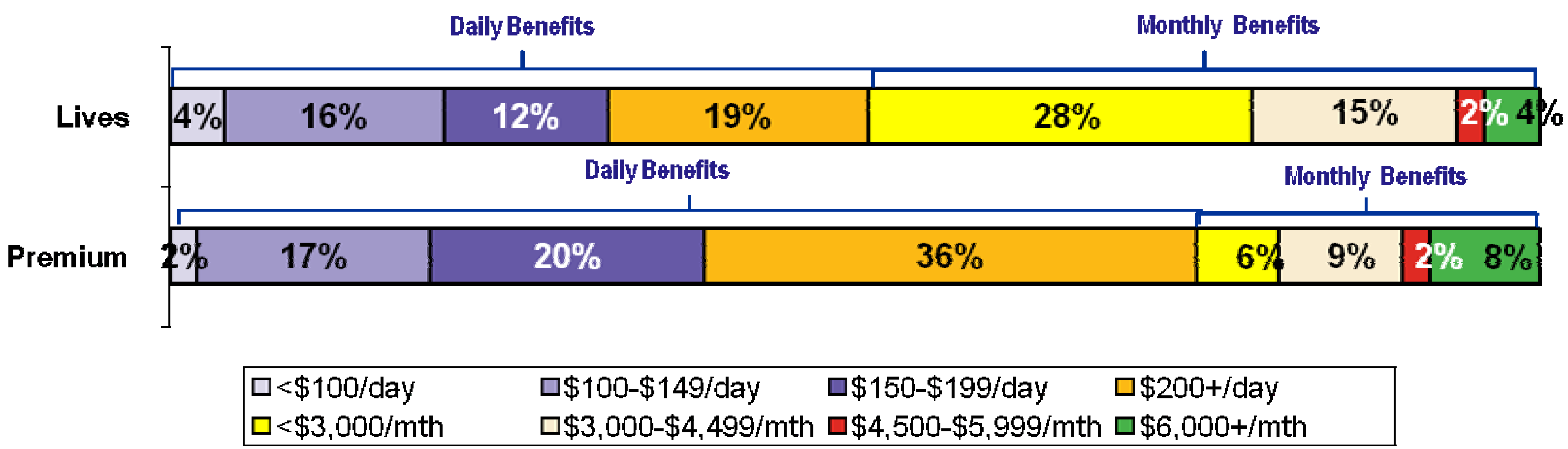
- 57 percent of eleven carriers' in-force group LTC insureds reside in one of ten states accounting for 65 percent of in-force premium.



LTCI Group Buyer: Benefit Amount

- Nine of 10 participating entities offer coverage in the form of daily benefits. One carrier has monthly options available in addition to daily benefit offerings, while another carrier offers monthly benefits exclusively.
- Forty-five percent of 2007 group LTCI buyers have daily or monthly benefits that equate to $100 to $200 per day of coverage.

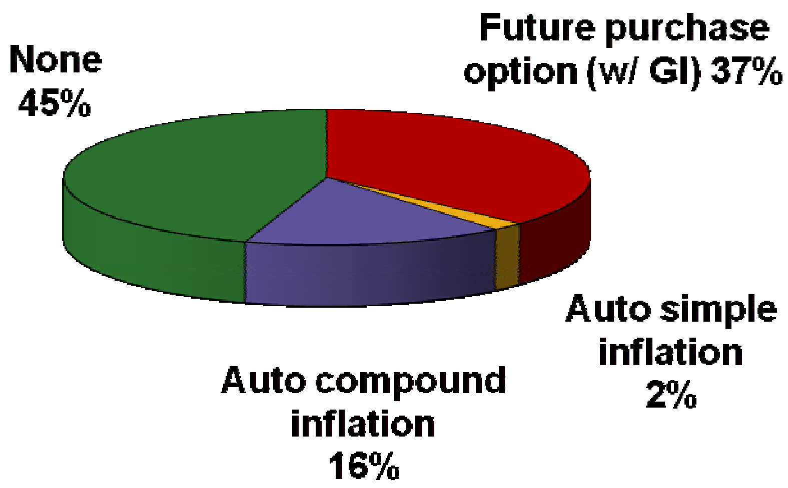
2007 Group LTCI Sales by Benefit Amount



LTCI Group Buyer: Inflation Protection

- Fifty-five percent of 2007 group LTCI buyers have some form of inflation protection.
- For nearly all buyers with compound inflation protection, benefit amounts increase 5 percent annually for the life of the policy.

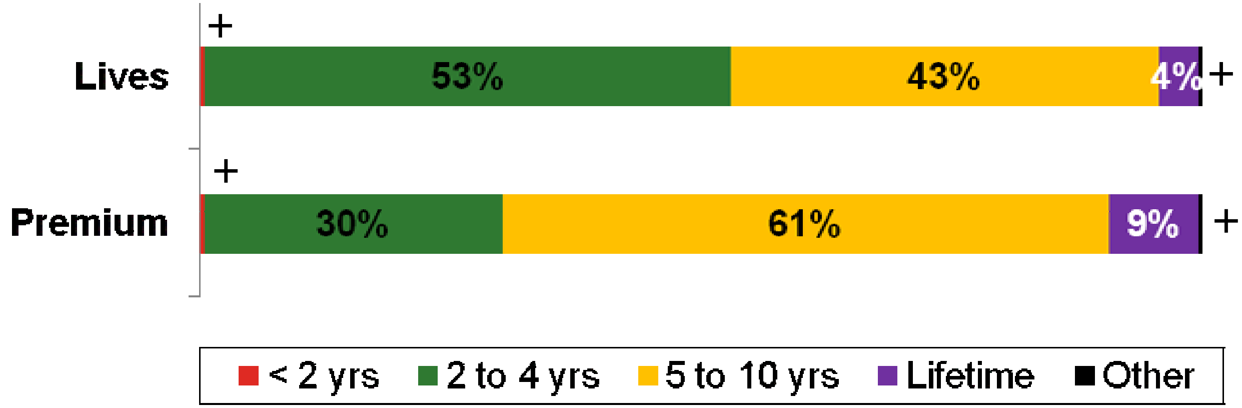
2007 Group LTCI Buyers of Inflation Protection



LTCI Group Buyer: Benefit Duration

- In an effort to maintain affordable premiums, most group LTCI plans provide limited-duration benefits. The majority of 2007 group LTCI buyers purchased benefit durations of two to 4 years.

2007 Group LTCI Sales by Benefit Duration



+ less than ½ of one percent

How Group Buyers Compare to Individual Buyers

Group buyers tend to have a lower average annual premium

- Shorter benefit duration
- Less purchasers of automatic compound inflation protection
- Younger purchase age

LTC Group Product Primer

- The group plan sponsor (e.g., the employer) is the policyholder and the insured is the certificateholder
  - In the individual marketplace the policyholder is the insured.
  - In the group marketplace the policyholder can make certain decisions on behalf of the group.

- Group plans operate under situs and extraterritorial rules
  - The group policy is issued in the situs state (criteria for determining situs state can include state of incorporation, largest concentration of employees, or headquarters).
  - The situs state governs the plan design for all states - except extraterritorial states.

This means that the certificateholder's state of residence does not necessarily govern the product that is being issued.

LTC Group Product Primer continued

- What are employers generally looking for when offering LTCI
  - Equity for all participants
  - Uniform plan design
  - Uniform rates
  - Simple plan design and communications
  - Minimal work on their part

How Group Carriers Are Thinking About Partnership

- An informal survey was conducted with insurers who offer LTCI programs through a true group product - 7 carriers responded.
- Most carriers primarily offer their group LTCI products to employers.
- Majority of respondents (5 out of 7) indicated either unsure of offering a PQ Plan or will only offer a PQ plan in certain states/with certain groups. Carriers are concerned about how inflation and exchanges will be handled.
- 4 out of 7 respondents said undecided/unsure about what type of inflation protection to offer. Other respondents indicate 5% ACI or CPI will be offered where permissible.

How Group Carriers Are Thinking About Partnership cont'd

- Majority of respondents (6 out of 7) indicated that either a new or existing group sponsor has a PQ plan or requested a PQ plan.
- Responses varied on percent of new groups that carriers believe will request a PQ Plan (ranged from 10% to 100% with the majority indicating unsure - 4 out of 7).
- Top concerns with offering PQ plan were as follows:
  - Marketing complexity to employers and employees
  - Cost of 5% Automatic Compound Inflation feature impacting participation
  - Inability to offer the same plan design across all states
  - Design and administrative complexity with certificateholders in multiple states
  - How DRA rules work outside the situs state

Registry Data Shows Concentrated Minimal Activity With Group PQ Plans

- Group Partnership Data from Registry for period: 1/1/09 - 6/30/09
- ~41,000 records received (96% from 2 companies)
- Age breakdown of certificateholders:
  - Less than 41: 28.7%
  - 41-50: 25.2%
  - 51-60; 30.5%
  - 61-70: 13.8%
  - 71-75: 1%
  - 76+: 0.4%
- 99.5% certificateholders reside in 2 states
- 86.5% certificates were exchanged from non-PQ

Registry Data Shows Concentrated Minimal Activity With Group PQ Plans cont'd

- 99.6% certificates have 5% automatic compound inflation

<age 61:	99.6%
61-75:	99.1%
75+:	75.2%

- Annual premium:
  - 58.2% between $500-$999
  - 32.9% employer paid

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