The Central Role of Partnership Programs in Long-Term Care Insurance Success

AALTCI Long Term Care Insurance Producers Summit
November 16, 2009

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Partnership Data

- 82% of the U.S. population aged 45 to 65 reside in a Partnership state (operational, SPA approved and SPA pending)
- Insurer submitted Registry files contain data on 130,000 DRA PQ policyholders
  - Average premium is $1,827 per year
  - Average DBA: $167
  - Average Lifetime Max: $252,000
  - Average Benefit Period: 4.1 years
  - New/Exchanges : >5% (except WI,FL)
- Insurer submitted Claims files contain data for approximately 100 insureds in claim

Implementation to Date

- **Operational Programs (policies for sale) (31):**
  - **CA, CT, IN, NY**
  - **AL, AR, CO, FL, GA, ID, KS, KY, MD, MN, MO, ND, NE, NJ, NV, OH, OK, OR, PA, RI, SC, SD, TN, TX, VA, WI, WY**
- **Approved State Plan Amendments, Non-Operational (5):**
  - **AZ, IA*, NH, LA, ME**
- **Pending State Plan Amendments (1):**
  - **MT, IA***

Public Policy Context

- Baby boomers have the potential to overwhelm Medicaid's pay-as-you-go LTC financing
- Changing nature of retirement resources:
  - Shift from defined benefit to defined contribution
  - Rapid expansion of reverse mortgages
  - Low savings rate in 401Ks & IRAs
- States seek savings from:
  - Delaying Medicaid enrollment
  - Discouraging asset transfer (CT survey)
  - Improving insurance purchase

Extending the Market

- Medicaid re-insurance makes purchase of shorter-term, comprehensive policy more rational
- Partnership Target Market: **Tweeners** those not currently on Medicaid, who are a long term care experience away from Medicaid
- Partnership expands range of financing options along the life span
- State involvement in Partnership increases awareness of risks and costs

Additional Information

- Partnership Information:
- http://www.dehpg.net/LTCPartnership/map.aspx

- HHS Long Term Care Planning website:
- http://www.longtermcare.gov

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Partnership Successes *& Challenges*

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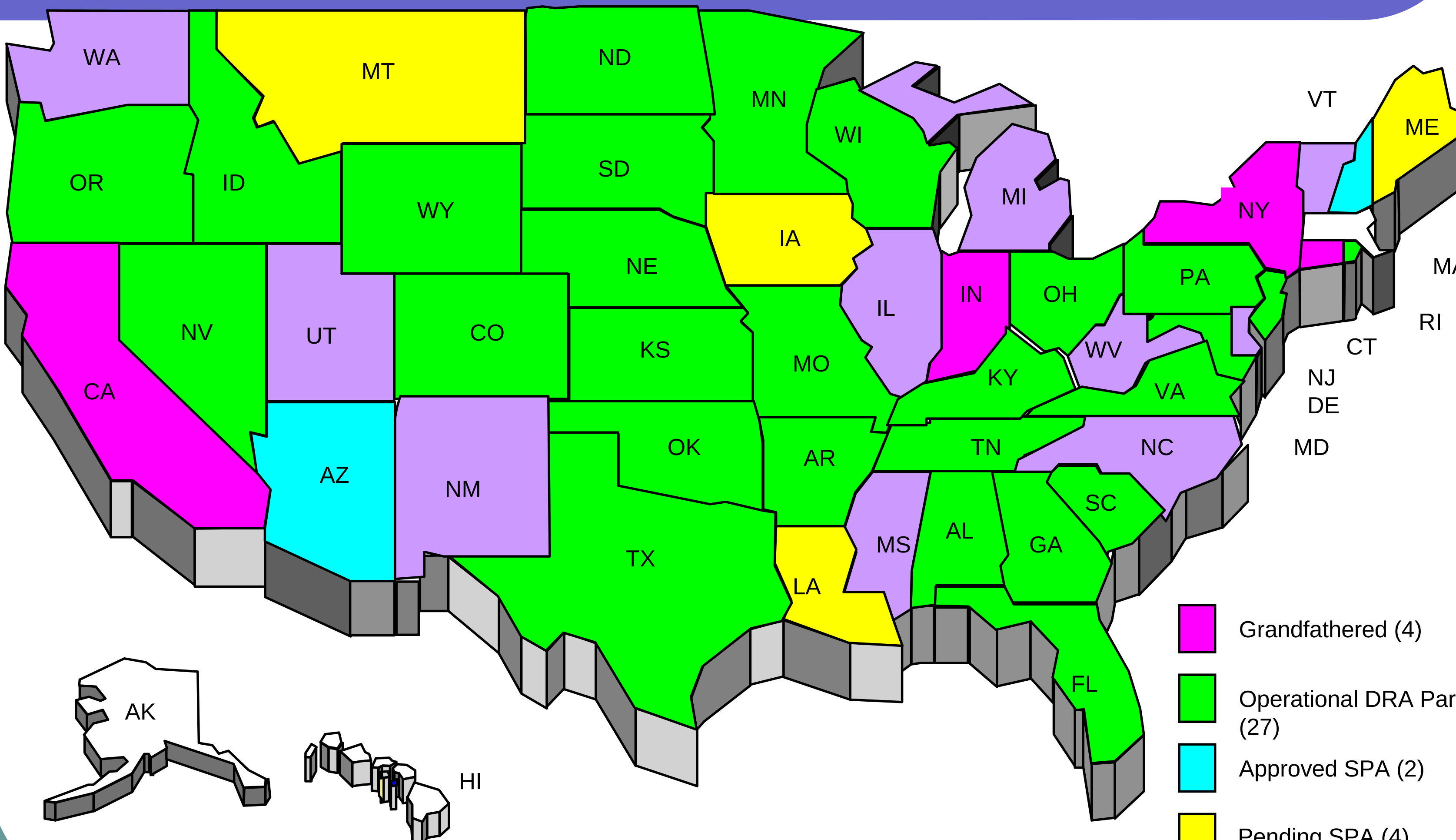
State DRA Partnership Status & Implementation Chart



Grandfathered (4)

Operational DRA Partnership (27)

Approved SPA (2)

Pending SPA (4)

In Development (9 + DC & PR)

Ed. 10/18/09

Successes

- State Response -- Stunning!!!
- In less than 4 years we currently have:
  - 27 new DRA Partnerships operational
  - 2 states where the SPA is approved
  - 4 states where the SPA is pending
  - 11 additional jurisdictions where discussion is ongoing
- General uniformity in state implementation processes (e.g., filing, issuer certification, disclosures, etc.)
- Reciprocity in all DRA states (except WI) and the IN and CT Partnerships
- Reporting is working

Additional Successes

- Producer Training
  - More than 30- states have adopted the NAIC producer training requirements in less than 3 years
  - ClearCert – carriers, vendors and producers all working together to assure appropriate training
    - Why it works

Additional Successes

- More education and good disclosure in marketplace due to “Own Your Future” and DRA Partnership launch publicity
- States updating their LTCi requirements to latest NAIC 2006 (now 2009) version
- Recognition of cost of LTC and the need for flexible inflation protection solutions

A Few Remaining Challenges ….

- Producer Training
  - Continual Evolution of Requirements
  - Lack of Consistent Dating Policies (i.e., when is the “drop dead date” that refresher training needs to be taken)
  - Lack of Communication
- Exchanges
  - Need to Build the Systems & Back-office Support
  - The Right Messaging
  - Short Compliance Windows
- Timing of It All ….

A Few Remaining Challenges ….

- True Group LTC
  - - DRA not written for GLTC
- Situs vs. Residence State
- When do we hit critical mass?
- What is the employer’s role
- Timing – getting everything done
- Exchanges
  - “Say it ain’t so for GLTC….”

The Same Solution Works for All Challenges

- Set Reasonable Expectations for All Parties
- Innovation, Education & Patience
- Communication

Fundamental Beliefs

- The Partnerships are excellent public policy
- It is our responsibility to optimize their impact
  - By promoting them and utilizing them appropriately
  - By FINE-TUNING them appropriately
- To keep presentation short:
  - I will not go into a lot of details (Q&A)
  - I will presume that asset disregard is the major reason for purchase. Please note that I do NOT think that is generally true.

Design Affordable Policies: Agents' Opportunities

Typical characteristics if focused on asset-disregard:

1. Avoid spending on care, $ clients wanted to protect
   a) Short Elimination Period
   b) Fairly-high Daily Benefit
   c) 5% Compound Benefit Increases ("ABI")
2. Avoid benefits which exceed their assets
   a) Short Benefit Period
   b) No Shared Care

Design Affordable Policies: Carrier's Opportunities

- Promote Partnership
- Develop new policy designs:
  - One-year Benefit Period saves about 33% vs. 2-year BP
  - Home Care Only saves about 33% vs. comprehensive
  - Policies with no daily, weekly, monthly or annual limit.
    - Lifetime limit with permanent co-pay
    - Handles inflation or extreme costs by shortening BP
    - Most consistent with Partnership philosophy , even without ABI
  - Other creative ideas
- Be careful in designing features such as Shared Care

Design Affordable Policies: States’ Opportunities

- Approve policy with no periodic minimum as Partnership, even with no benefit increase feature. Most states are doing this, but some resist.
- Approve FPO, perhaps only for group, perhaps only with bail-out; perhaps only if FPOs are exercised or formularized benefit is met year-to-year
- Permit 1-year BP and other less expensive designs to be issued, perhaps only if they meet Partnership qualification

Group Uncertainties

- Group should be a key market for Partnership
- Issues

1. Applicants could live in new Partnership states, original Partnership states or states with no Partnership
2. New applicant on an old group policy
3. In force policy changes on old or new group policies
4. Resident state issues
5. Other issues

Facilitate Group Partnership

Carriers and brokers can:

- Make Group Partnership available
- Encourage ABI more strongly
- Once Partnerships are everywhere, reach out more to elder relatives

Carriers can lower core benefit min. size if ABI is included

States without Partnerships can adopt Partnerships

Original states can migrate to new Partnership rules

New Partnership states can address group issues

Training Issues

- Training renewal dates should = CE renewal dates
  - Current rules are confusing and discourage early education
- Facilitate special topics instead of requiring re-hash

* Group * Underwriting * Claims * Ethics

* Multi-Life * Medicaid * Pricing, including rate increases

* LTC info * Tax details * Combo products

* State differences (taxes, LTC, Medicaid, Partnership, design,…)

* Significance of subtle policy wording (definitions; BIO; Survivorship; etc.)

* Re-hash should be an alternative

Sub-issue: Facilitate multiple smaller units (vs. one 4-hr class)

- States? Carriers? ClearCert?

State Opportunities to Educate

- Improve communications
  - Web-sites, brochures, PSAs, etc.
  - Providing more (current) info
  - Provide more (current) links
  - Improve messaging to consumers, employers, brokers, et. al.
  - Approved presentations
- Key ways to be effective
  - Do as a consortium to save $
  - Use people expert in PR, marketing, sales & Partnership and who understand and believe in the goals
- Agent-funded direct mail program such as in CA

Avoid Medicaid Asset Disregard Calculation Pitfalls

Existing Partnership states may all have addressed these issues now

- Insureds should be able to access Medicaid prior to exhaustion of benefits
- Insureds should continue to build asset disregard while on Medicaid if LTCi policy is still in force

New states should avoid these pitfalls

Avoid Reneging On Asset Disregard Promises

Some new Partnership states suggest that they might renege on asset disregard promise:

“However, please be aware that these laws are subject to change at any time in the future, which changes could result in the modification, reduction or even the elimination of the Medicaid-asset protection feature.”

With control over other Medicaid rules, I don’t know why asset disregard can’t be guaranteed.

Benefits
To Pre-Existing Policies

- Insurers can help by certifying policies issued after 8Feb06, but which were no longer issued when they joined State Partnership
  - That way, existing policies can qualify without having to be re-issued
  - Could also facilitate changes from simple to compound

- Note: State exchange requirements can be valuable IF limited to certified forms

State-of-Residence Limitation

- DRA: “The policy covers an insured who was a resident of such State when coverage first became effective under the policy.”
- Intended to avoid “shopping” for a Partnership state?
- Unnecessary once Partnerships are common.
- Interferes with ability to buy policy in solicitation state
  - Where employed
  - Where financial planner lives
  - Where children live
  - Secondary residence may not be a problem?

Federal Medicaid Legislative Issues

- Important to focus Medicaid on the financially-needy
- Key issue: encourage use of reverse mortgages instead of long-term 0% loans from Medicaid
  - Robs elder of dignity; restricts use of “his own” money
  - Creates large Medicaid expenditures that are unnecessary
  - Under-pays providers, reducing quality of health care
  - Wouldn’t need the home equity limit if we did this