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Is Long Term Care Insurance Profitable Business?

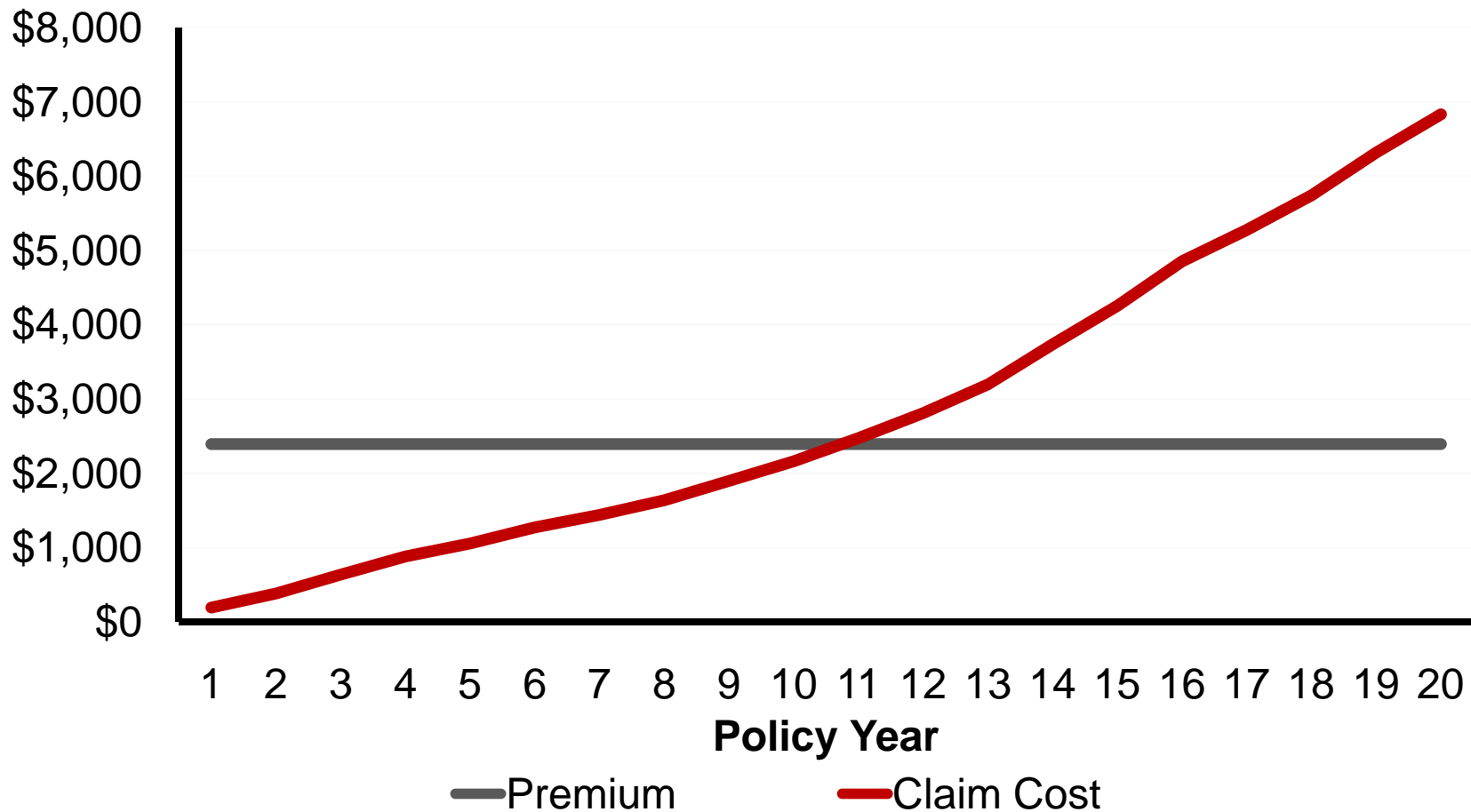
Long Term Care Producers Summit
November 16, 2009

Overview

- **How do profits emerge?**
- **What caused losses on old business?**
- **Are new products profitable?**
- **What economic conditions threaten LTC?**
- **What features concern actuaries?**
- **Likelihood of exits**

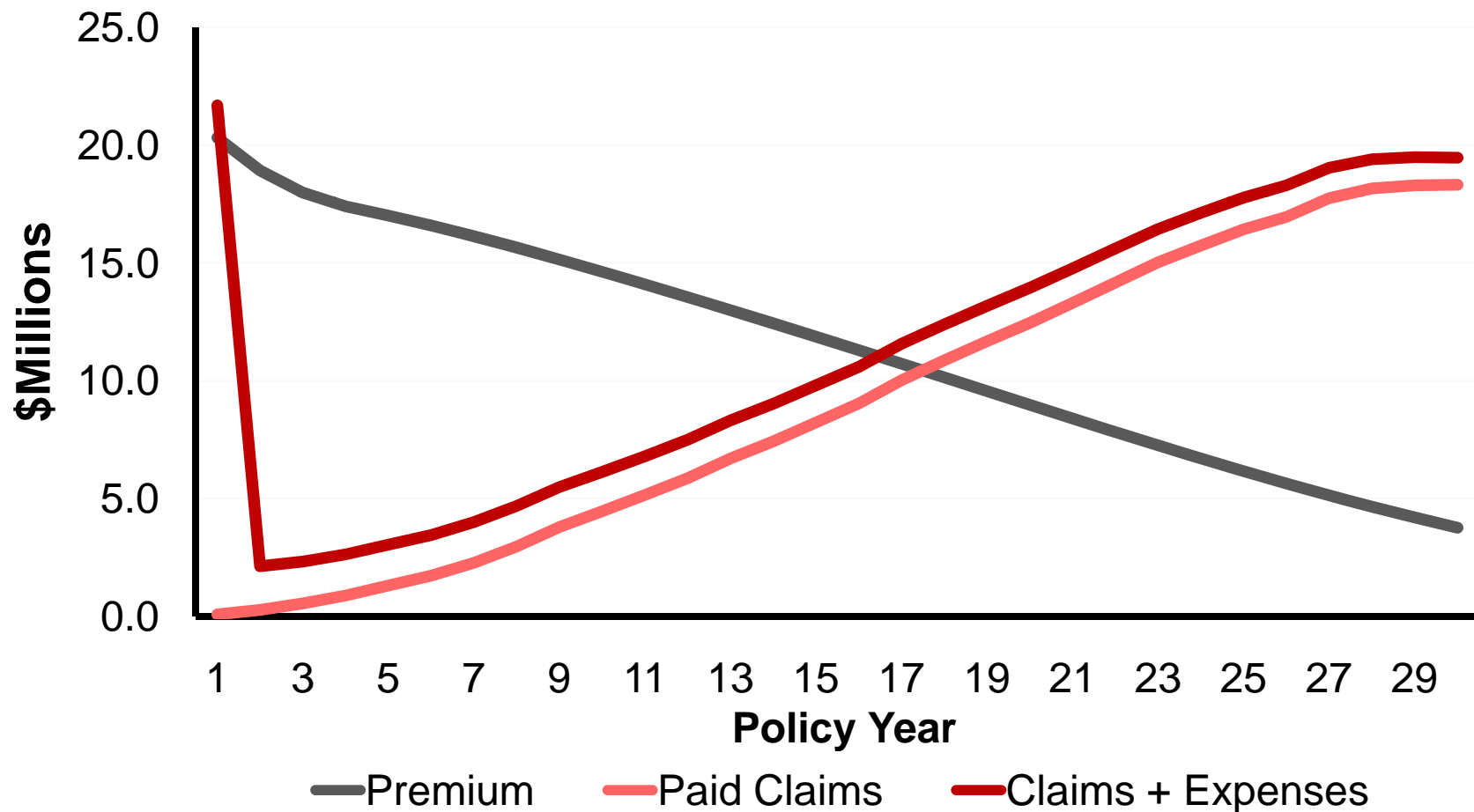
How Do Profits Emerge?

Sample Per-Policy Premium and Claim Costs



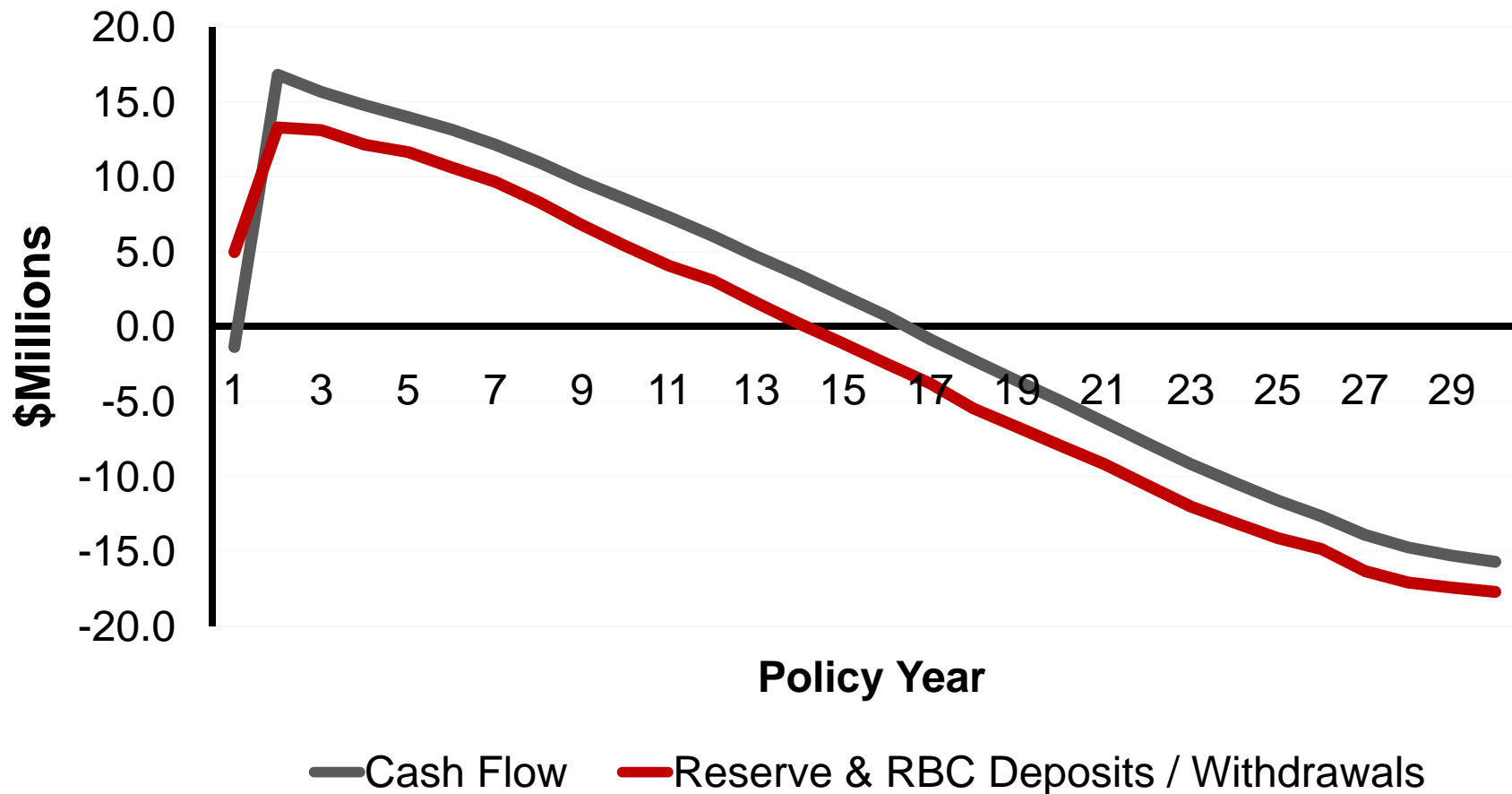
How Do Profits Emerge?

Elements of Cash Flow for 10,000 Lives



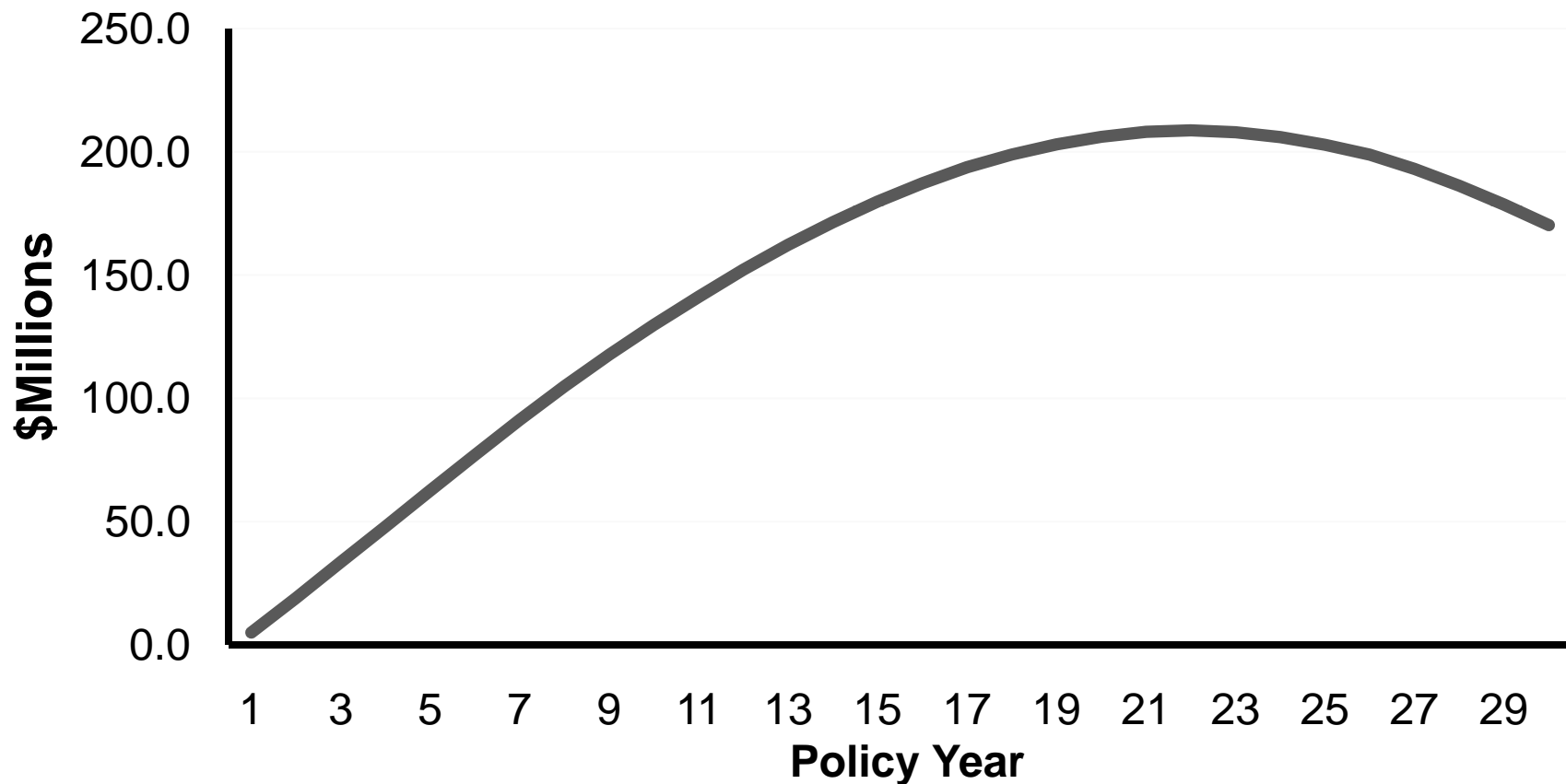
How Do Profits Emerge?

Usage of Cash Flow for 10,000 Lives



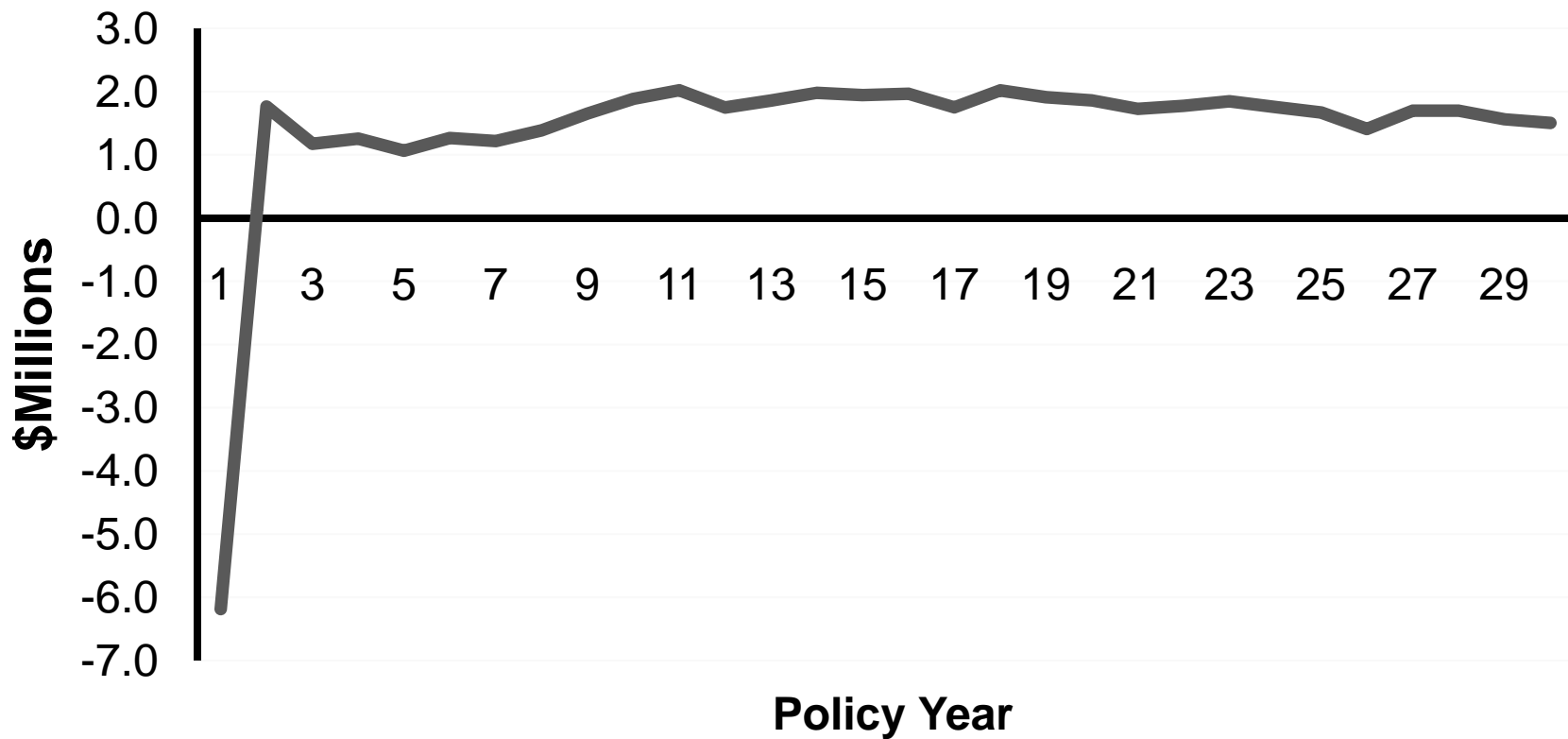
How Do Profits Emerge?

Reserves + RBC for 10,000 Lives



How Do Profits Emerge?

Distributable Profits for 10,000 Lives



How Do Profits Emerge?

- **Unique elements of LTC pricing:**
- **Pre-funding of future claims**
 - Excess premiums in early years fund reserves to pay claims in later years
- **Investment income is very important**
- **Lapse supported product**
- **Must monitor diligently**
 - Early claims are only an indicator
 - Rate increase leverage decreases with time

What Caused Losses On Old Business?

- Older products developed before:
- Advances in longevity
- Wide availability of assisted living facilities
- Benefit triggers clearly defined
- Risk selection understood
- Understanding of lapse rates
- Decreases in interest rates

What Caused Losses On Old Business?

- **Some blocks cannot be rehabilitated:**
- **Degree to which assumptions were missed**
- **Delays in recognition of adverse experience**
- **Reluctance of regulators to approve large rate increases in many states**

What Caused Losses On Old Business?

- **Rate increases needed to offset:**

The company realizes it:

<u>Scenario</u>	<u>At Issue</u>	<u>5th Year</u>	<u>10th Year</u>
10% higher claims	4%	6%	10%
1% lower lapses	6%	9%	12%
1% lower interest	5%	8%	12%

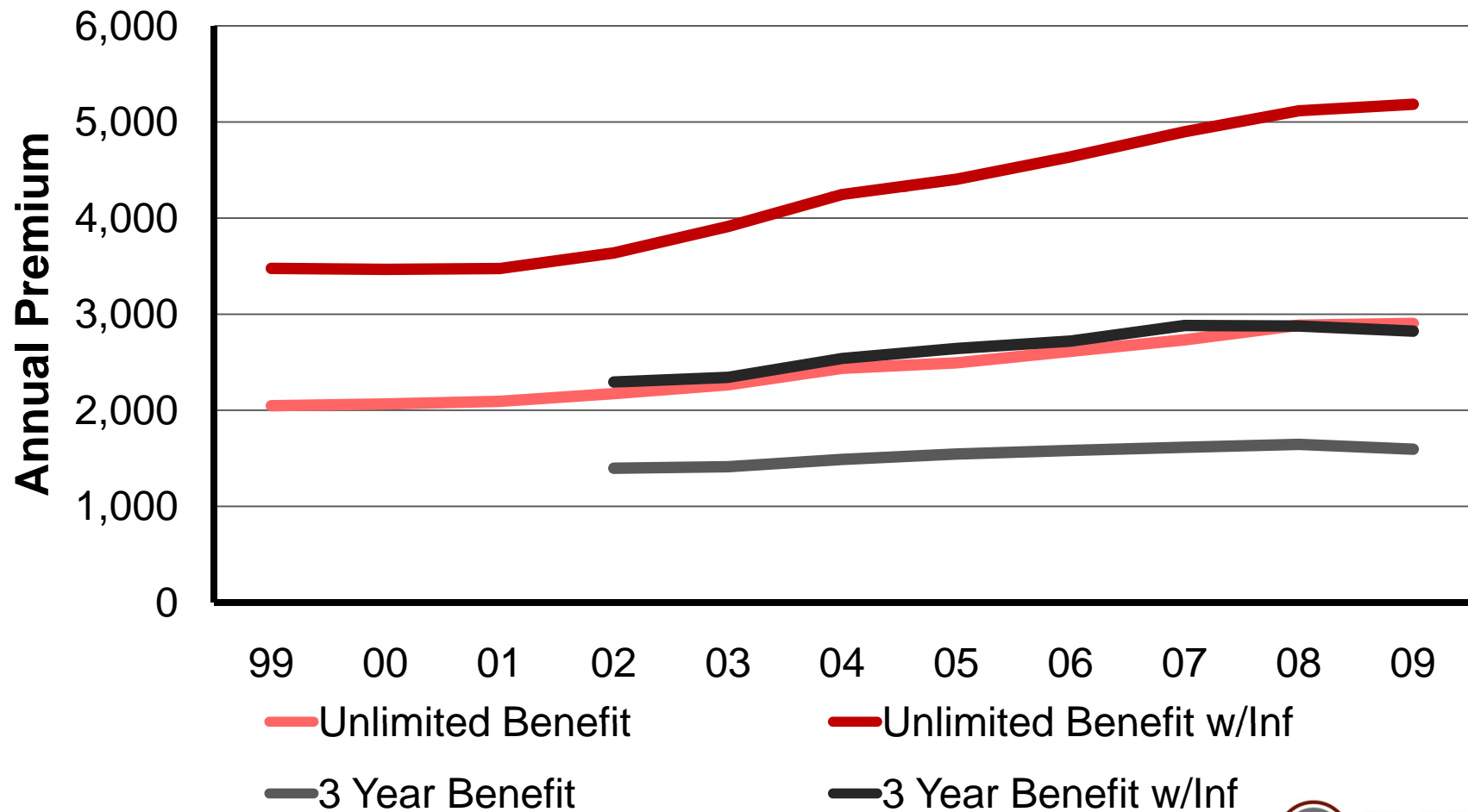
- **Does not try to recover past losses**
- **Older blocks had multiples of all three**

Are New Products Profitable?

- **Pricing recognizes new assumptions**
 - Longer lengths of stay, lower lapses, lower interest rates
- **Increased regulation of new pricing:**
 - Conservative pricing mandated
 - Rates must cover adverse experience
- **Increased investor demands on ROIs**
- **Driving new business rates higher**

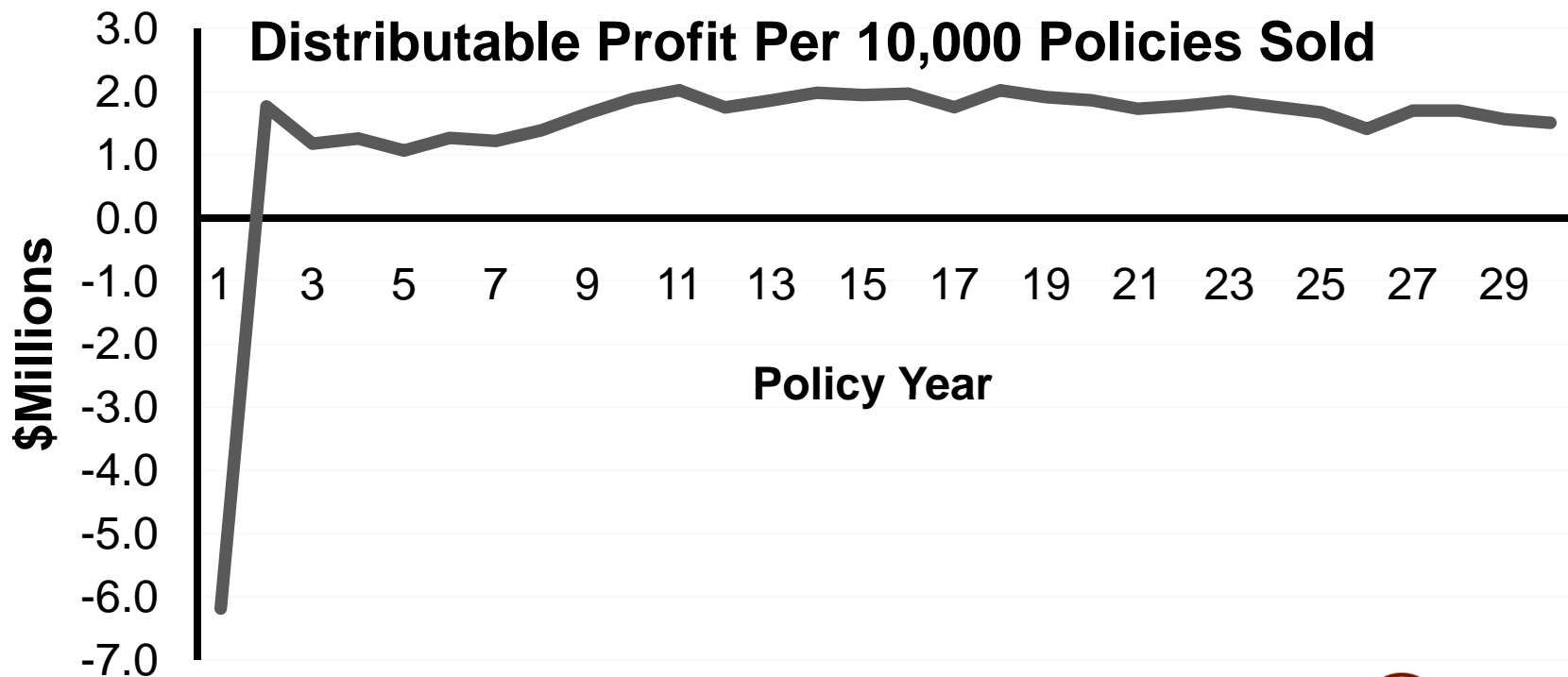
Are New Products Profitable?

Trend in New Business Premium Rates



Are New Products Profitable?

- Are they profitable? YES, but....
- Remember this?:



Are New Products Profitable?

- **Large first year investment required**
 - At least five years to break even
- **Investment required for each new policy written**
 - Pushes out the date that distributions made
- **Access to ongoing capital supply is key**
- **Capital is becoming more expensive**

Economic Threats

- **Lower interest rates**
 - Jeopardize returns needed on reserves
- **Capital supply**
 - Wary investors means less capital and higher demands on returns
- **Bad economy driving bad experience?**
 - Notable decrease in lapse rates
 - Notable declines in claim recoveries

What Features Concern Us?

- **Stand-alone HHC in Florida:**
- **Utilization is 3 to 4 times national**
- **Sophisticated policyholders and providers**
- **Older triggers are especially problematic**

What Features Concern Us?

- **Assisted living facilities:**
- **Increasing incidence**
 - Number of ALF beds doubled this decade
 - Make up almost half of new facility claims
- **Much longer lengths of stay**
 - Less severe confinements
 - Picking up the claim earlier than before

What Features Concern Us?

- **Assisted living facilities:**
- **Little to no stigma in confinement**
- **Boomers are sure to change them as they start to use them**
- **Is it really an insurable risk?**
 - **\$3/month, private apartment, no mortgage, no taxes, no food costs, tax deductible expense**
 - **What's the financial burden?**

What Features Concern Us?

- **Other concerns:**
- **Lifetime / inflation protection**
 - Not a good match with declining interest rates and improving mortality
- **Vague non-TQ definitions**
 - Some companies still make them available
 - Regulators intervene on interpretations

Likelihood of Exits

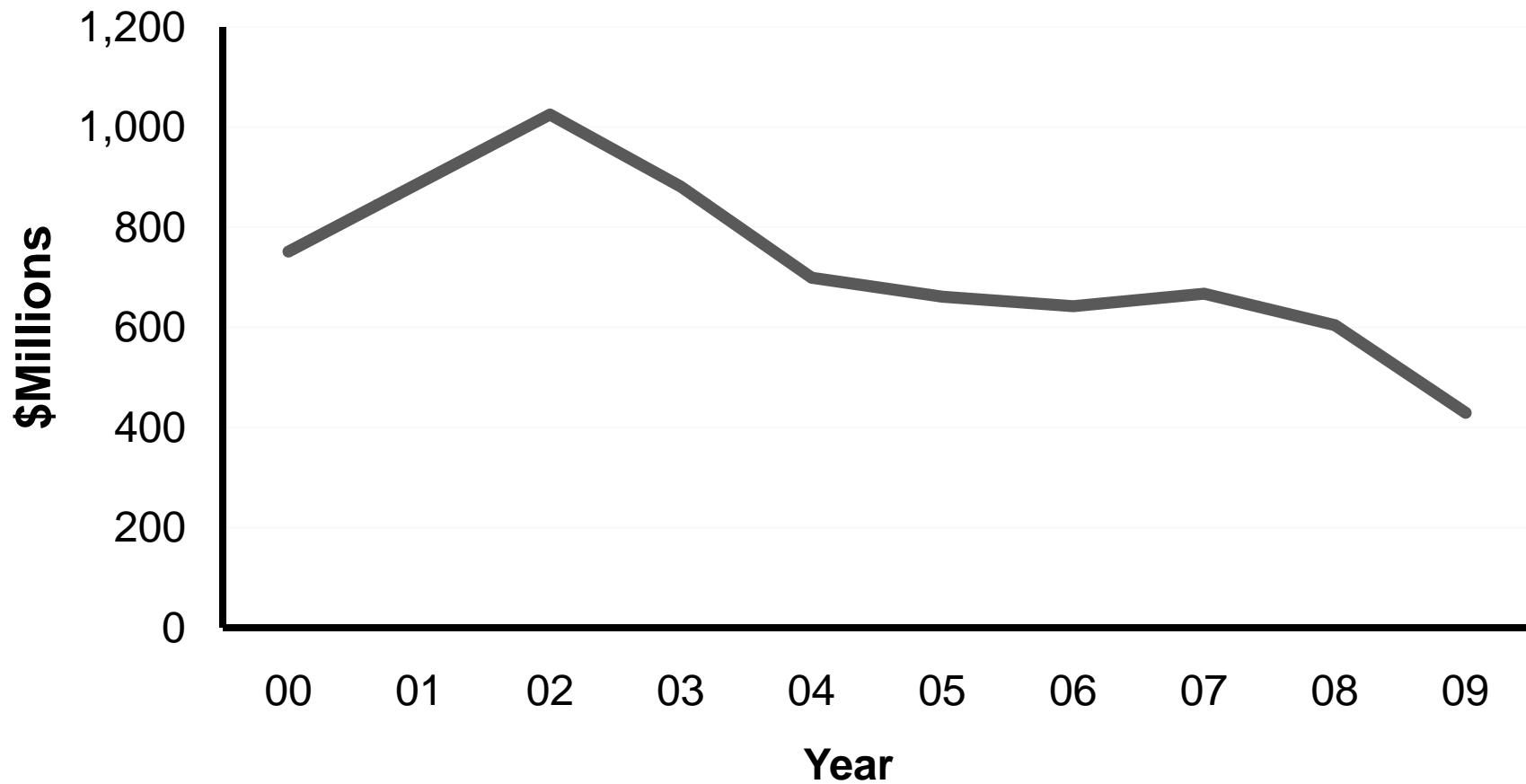
- **Existing business: NOT LIKELY!**
- **In general, acquisition activity is down**
- **No real market to transfer LTC blocks**
- **Fear of taking on someone else's problem**
- **Most blocks would require payment from seller to buyer to take them**
- **Required returns too high to justify premium paid to sell blocks**

Likelihood of Exits

- **New business dichotomy:**
- **Large amounts of capital needed**
 - More scarce than previously
 - Can deploy in other areas with less demands
- **Versus need to “feed the machine”**
 - Declines in volume a threat to home office marketing fixed costs

Likelihood of Exits

Trend in New LTC Sales

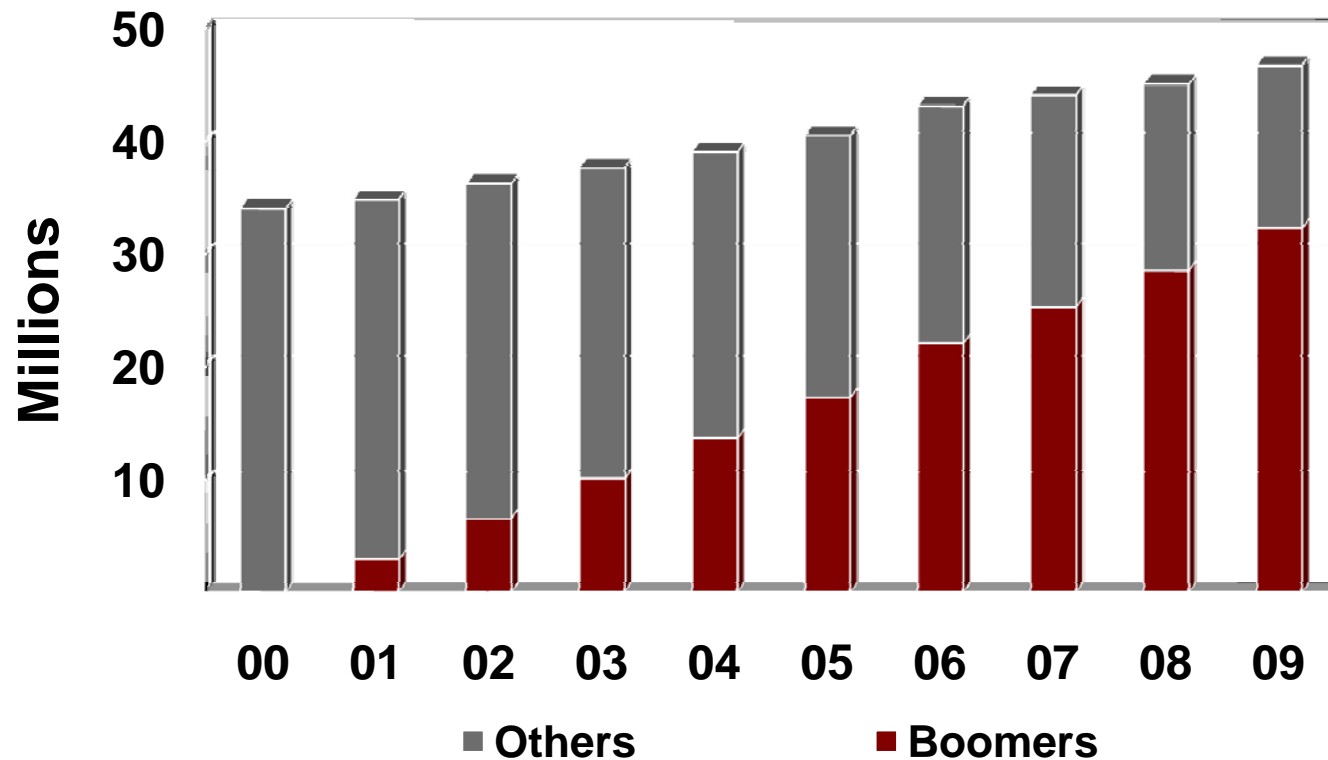


Likelihood of Exits

- **Declining sales are a reality**
- **Is it the product?**
- **Is it the price?**
- **Is it both?**
- **OR....**
- **Is it the target market?**

Likelihood of Exits

Population Aged 55-69



Source: U.S. Census Bureau

Likelihood of Exits

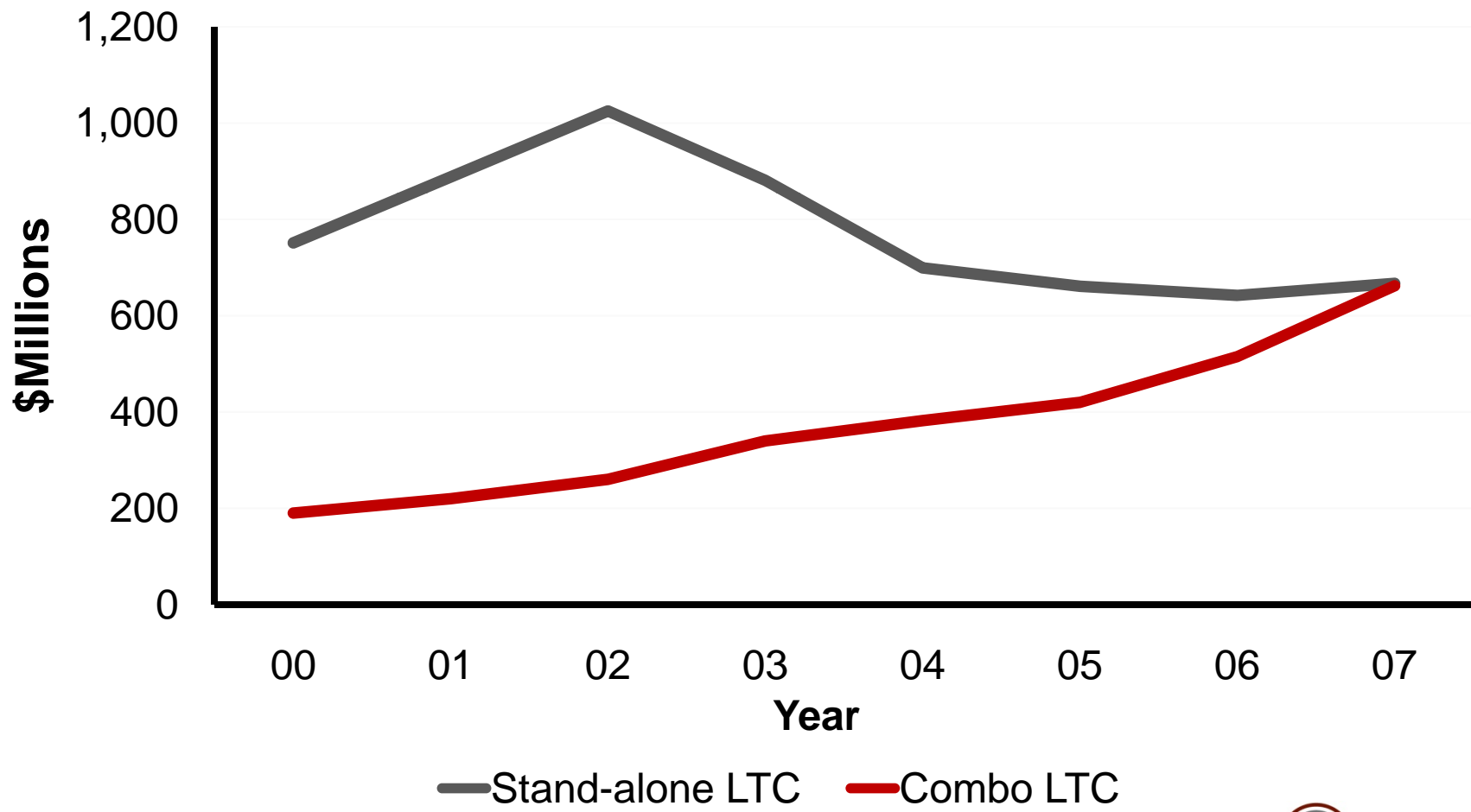
- **Baby Boomer attitudes:**
- **Less risk averse than parents**
- **Wealth transfer is not the primary goal**
- **Less patience - need simpler sales**
- **Want a product they can “cash out” from**
- **Current product and distribution is not a good match**

Likelihood of Exits

- **Competition with combo products**
- **Combo product appeal:**
- **For the Boomers**
 - Easy to understand, equity build-up
- **For producers**
 - Easy to sell as an “add on”
- **For carriers**
 - Less capital required, many risks are mitigated

Likelihood of Exits

Convergence of Stand-alone and Combo Sales



Conclusion

- **Older, mispriced business is a drag on profits**
- **New business pricing recognizes assumption misses and is conservative**
- **New business requires access to capital**
- **Decreasing sales may fall below critical mass**
- **Competition with combo products is real**

Questions?



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