The Current State of the Private Long-Term Care Insurance Industry

Presented to

Advisory Council on Alzheimer's Research, Care, and Services

by

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Presentation Topics

- Current overview of U.S. LTC Insurance Market
- Profile of Individuals Purchasing Policies
- Product Evolution
- Market Exit among Carriers and Implications

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Current LTC Insurance Industry Parameters

- **Individual market**
    - Roughly 5-6 million individual policies in force.
    - Total annualized in-force premium of over $8 billion.
    - Approximately one dozen companies still active in market
    - Annual sales in 2010 were 65% lower than in 2000.
    - Between 2009 and 2012 average annual growth was positive at 6%
- **Group Market**
    - Between 2.2 and 2.6 million certificates in force.
    - Total premium of greater than $2.0 billion.
    - Compound annual sales growth rate between 2005 and 2010 is +5%
    - Slightly more than 11,000 employer groups sponsoring coverage
    - Less than 8 insurers actively selling in the group market

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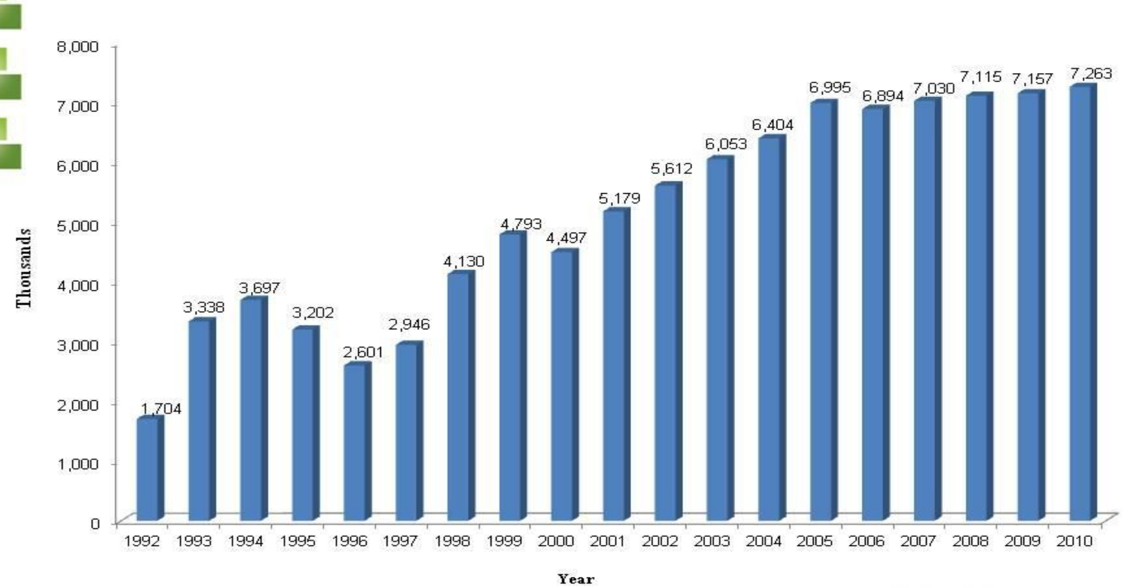
Number of Insured Lives has been relatively flat since 2005



Source: NAIC, 2011

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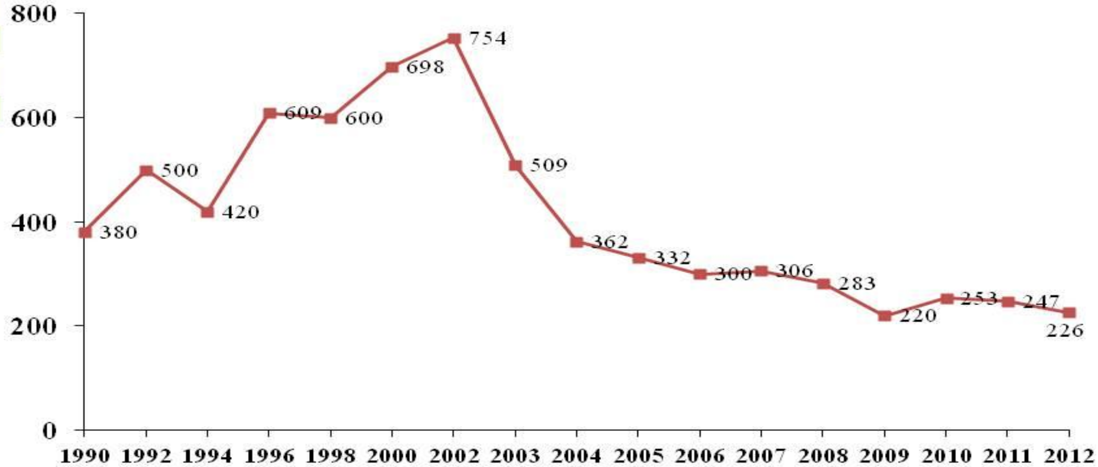
Annual Sales of Individual LTC Insurance Policies have been declining since 2002



Note: LifePlans analysis based on AHIP, LIMRA and LifePlans sales surveys, 2012.

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Growing proportion of sales is in the Group Market

- Group market represents a growing share of sales:
  - In 2000: 75% Individual market 25% Group Market
  - In 2010: 58% Individual market 42% Group Market
- Concentration in both markets: Top 10 carriers in individual market and top 5 in group market: 95% of sales
- Market penetration less than 10% of total population
  - 16% of the age 65+ with incomes > $20,000 have policies.

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CHARACTERISTICS OF

PRODUCTS AND PURCHASERS

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Great deal of product innovation over last 20 years

- Began as nursing home insurance in 1980s but now reimburses the costs of care in community and institutional settings:
    - Nursing home
    - Assisted Living
    - Home and community-based care
- Access to a bank of benefits
    - Typically to reimburse the costs of services
    - Standard benefit triggers based on functional and cognitive status
- Care management provided to help at claim time.
- Average premiums differ by market:
    - Individual Market: about $189 per month (average age 59)
    - Group Market: about $ 57 per month (average age 46)

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Policies have become more comprehensive with richer benefits

Policy Characteristics	Average for 2010	Average for 2005	Average for 2000	Average for 1995	Average for 1990
Policy Type					
Nursing Home Only	2%	3%	14%	33%	63%
Nursing Home & Home Care	92%	90%	77%	61%	37%
Home Care Only	6%	7%	9%	6%	---
Daily Benefit Amount for NH Care	$154	$142	$109	$85	$72
Daily Benefit Amount for Home Care	$153	$135	$106	$78	$36
Nursing Home Only Elimination Period	86 days	80 days	65 days	59 days	20 days
Integrated Policy Elimination Period	89 days	81 days	47 days	46 days	---------
Nursing Home Benefit Duration	4.8 years	5.4 years	5.5 years	5.1 years	5.6 years
Percent Choosing Inflation Protection	92%	76%	41%	33%	40%
Annual Premium	$2,268	$1,918	$1,677	$1,505	$1,071

Source: AHIP, 2011

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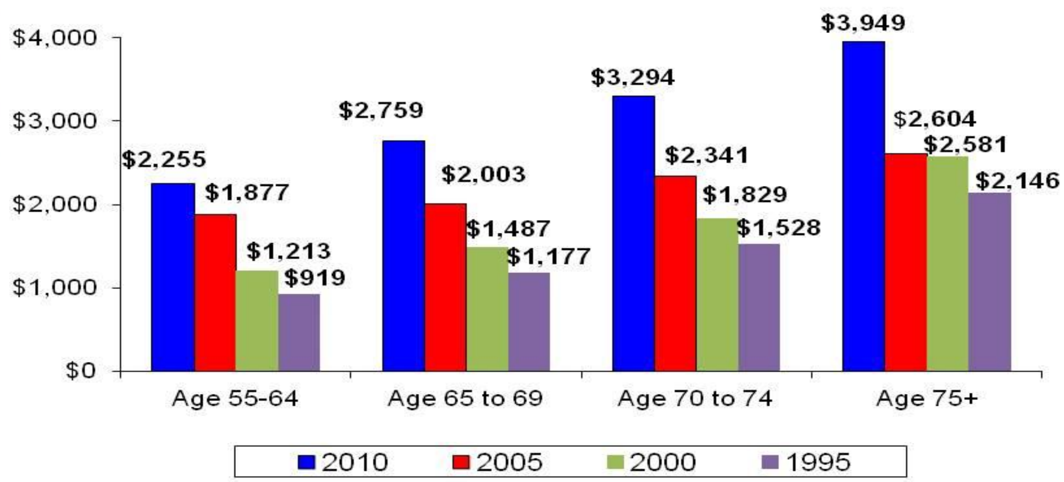
As policies have become more comprehensive and actuarial assumptions "trued up", premiums have increased



Premium Increase: 1995-2010: age 55-64: <u>145</u>%; age 65-69: <u>134</u>%; age 70-74: <u>115</u>%; age 75+: <u>84</u>%

Source: AHIP, 2011

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Younger, wealthier and employed individuals are buying policies

Characteristic	2010	2005	2000	1995	1990
Average Age	59 years	61 years	65 years	69 years	68 years
%> 70	8%	16%	40%	49%	42%
% Married	69%	73%	70%	62%	68%
Median Income	$87,500	$62,500	$42,500	$30,000	$27,000
% > $50,000	77%	71%	42%	20%	21%
Median Assets	$325,000	$275,000	$225,000	$87,500	N.A.
% > $75,000	82%	83%	77%	49%	53%
% College Educated	71%	61%	47%	36%	33%
% Employed	69%	71%	35%	23%	N.A.

Source: AHIP, 2011

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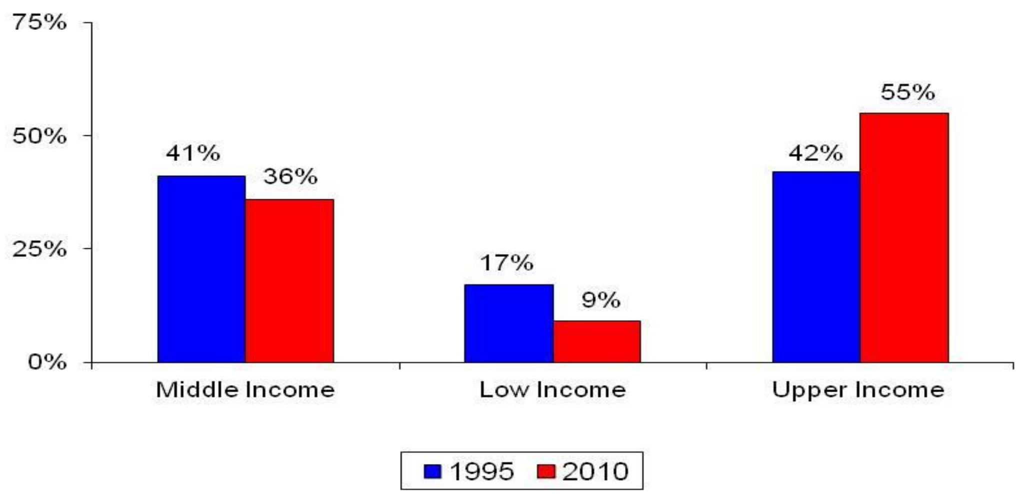
The share of LTC sales to the middle market age 40-69 is declining



Note: Low income <33% of income distribution; Middle income = 33% - 66%; Higher income = >66%

Source: LifePlans analysis of AHIP Buyer Data, 2011

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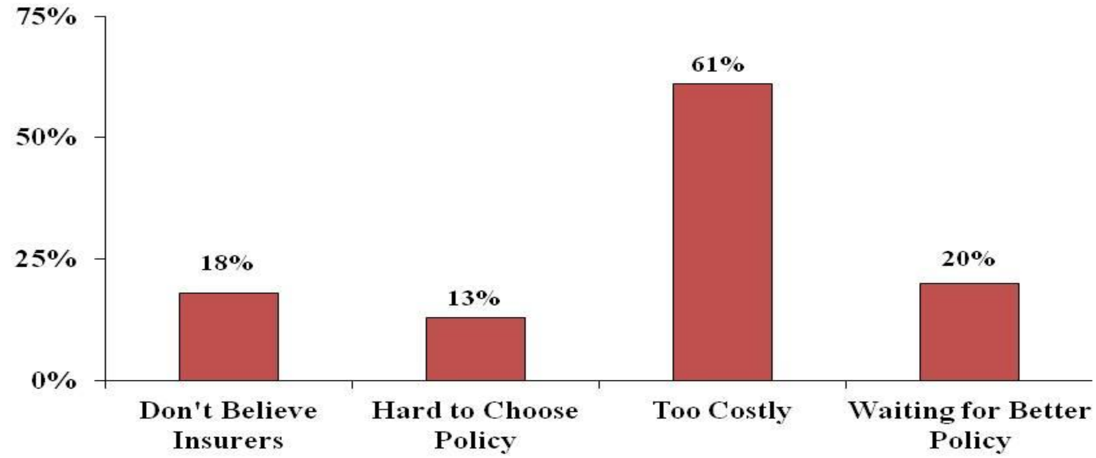
Most people choose not to buy policies because they are viewed as too costly (2010)



Source: AHIP, 2011

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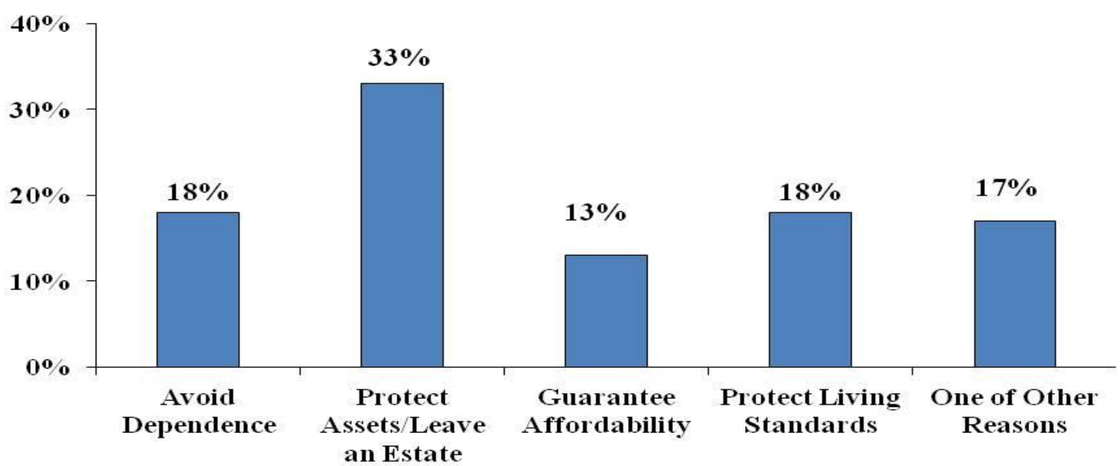
Most people buy policies to maintain lifestyle and consumption, not just to protect assets (2010)



Source: AHIP, 2011

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Public support for the private market has taken a variety of forms

- **HIPAA Tax qualification status**
  - Deductibility of premiums for itemizers
  - Few people benefit because of 7.5% AGI threshold
- **Partnership Programs**
  - Purchasers of LTCI can access Medicaid without having to spend-down assets
  - 45 states participate
  - Little knowledge of the program: <25% of random sample age 50 and over knew about program
  - 45% indicated they would be more likely to purchase LTCI if state had a Partnership Program
- **State Tax incentives for purchase of LTCI**
  - More than half the states provide tax incentives
  - Benefits too small to make much of a difference

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CLAIMS PAYMENTS AMONG LTC INSURANCE COMPANIES

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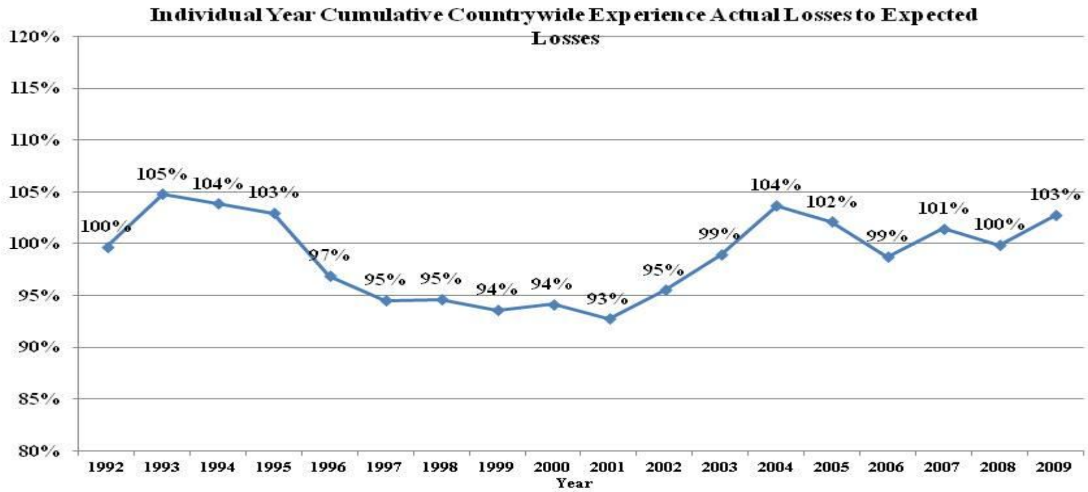
Recent claims performance has deteriorated somewhat: On a cumulative basis, claims are running 3% higher than expected



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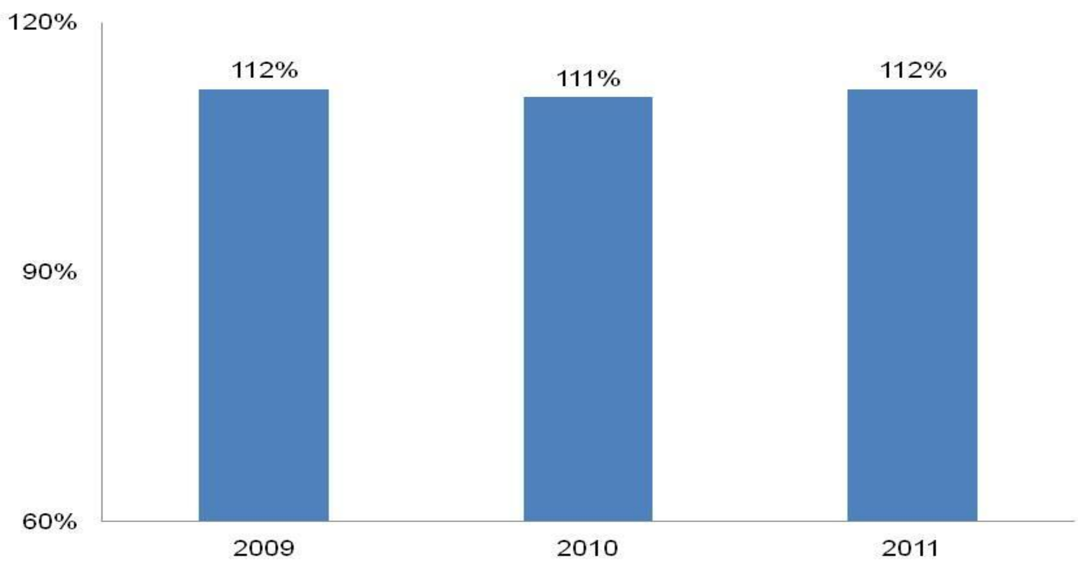
Industry Actual to Expected Annual Incurred Claims, 2009-2011



Source: NAIC Experience Reports, 2012

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Society of Actuary Findings on Dementias and Long-Term Care Insurance

- "…Alzheimer's claims continue to be most frequent, longest and most expensive, as well as trending upward"
- Alzheimer's claims have gone from representing 15% to 34% of total claims by count (2004)
- Alzheimer's claims paid-to-date are more than three times greater than the next leading cause (stroke).

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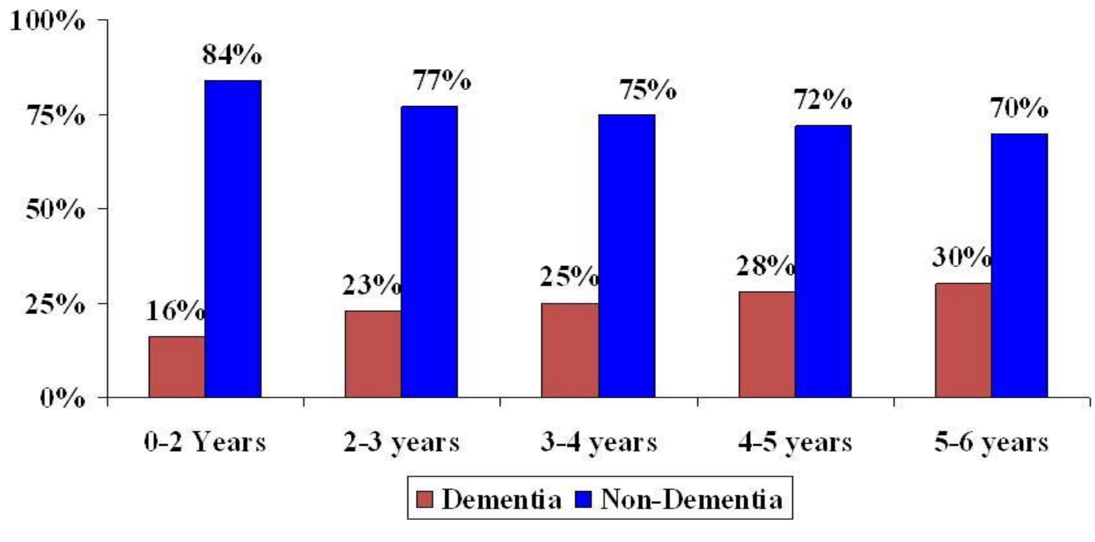
Claims Experience among 8,500 Claimants within Six Years of Policy Issue ("Early Claimants")



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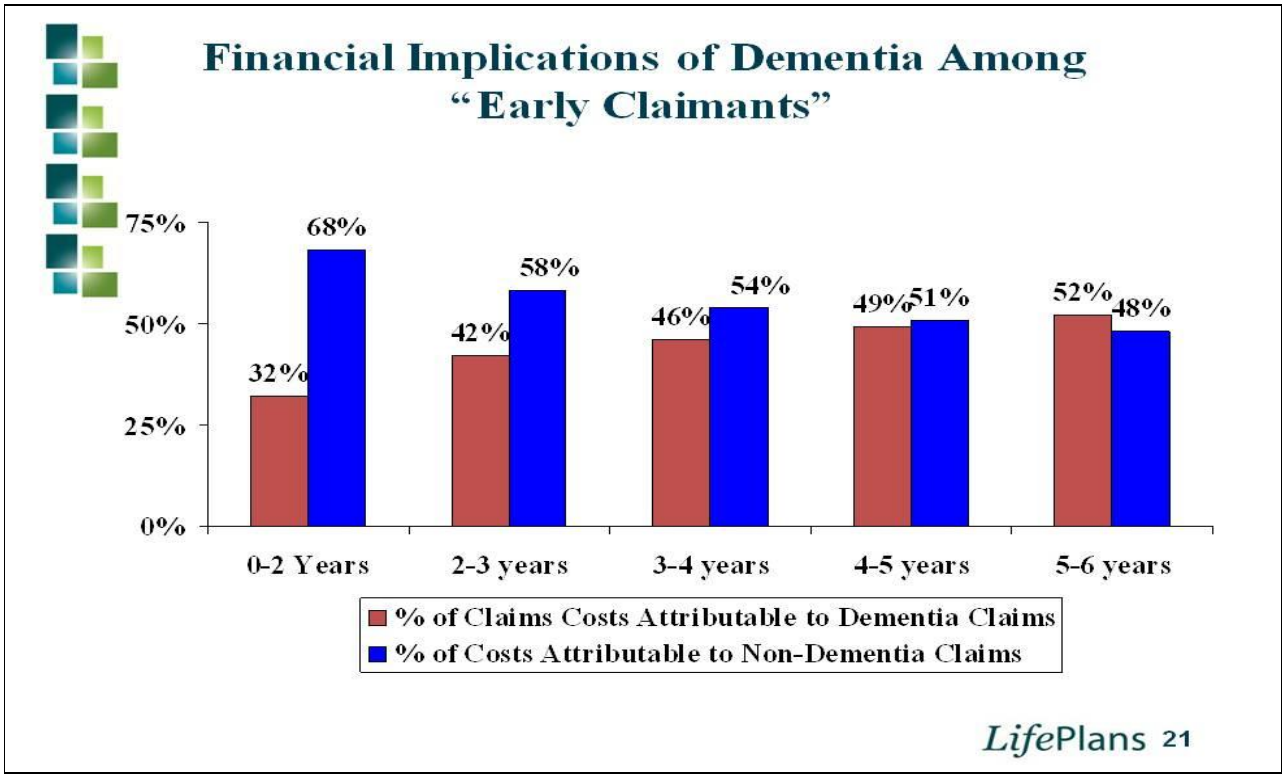
Financial Implications of Dementia Among "Early Claimants"
75%
50%
25%
0%
68%
58%
54%
49%
51%
52%
48%
46%
42%
32%
0-2 Years
2-3 years
3-4 years
4-5 years
5-6 years
% of Claims Costs Attributable to Dementia Claims
% of Costs Attributable to Non-Dementia Claims
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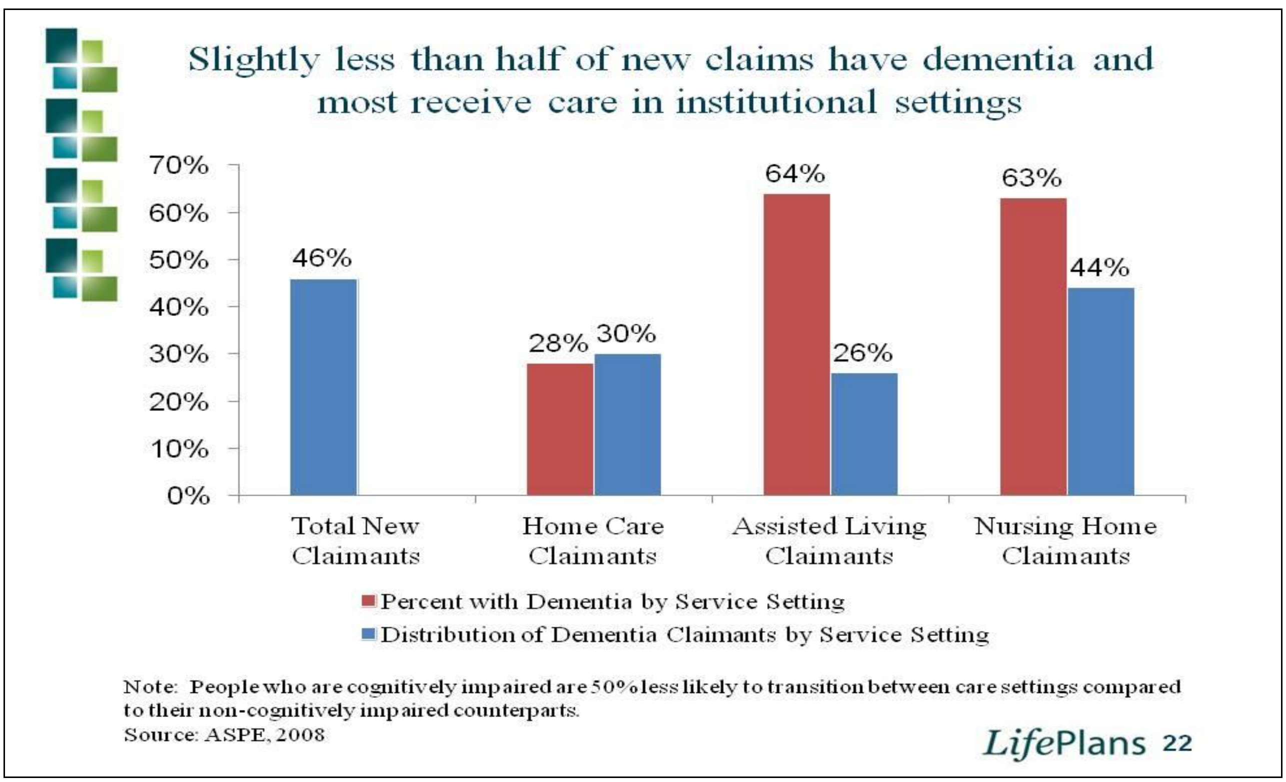
Slightly less than half of new claims have dementia and most receive care in institutional settings
70%
60%
50%
40%
30%
20%
10%
0%
46%
28%
30%
64%
26%
63%
44%
Total New Claimants
Home Care Claimants
Assisted Living Claimants
Nursing Home Claimants
Percent with Dementia by Service Setting
Distribution of Dementia Claimants by Service Setting
Note: People who are cognitively impaired are 50% less likely to transition between care settings compared to their non-cognitively impaired counterparts.
Source: ASPE, 2008
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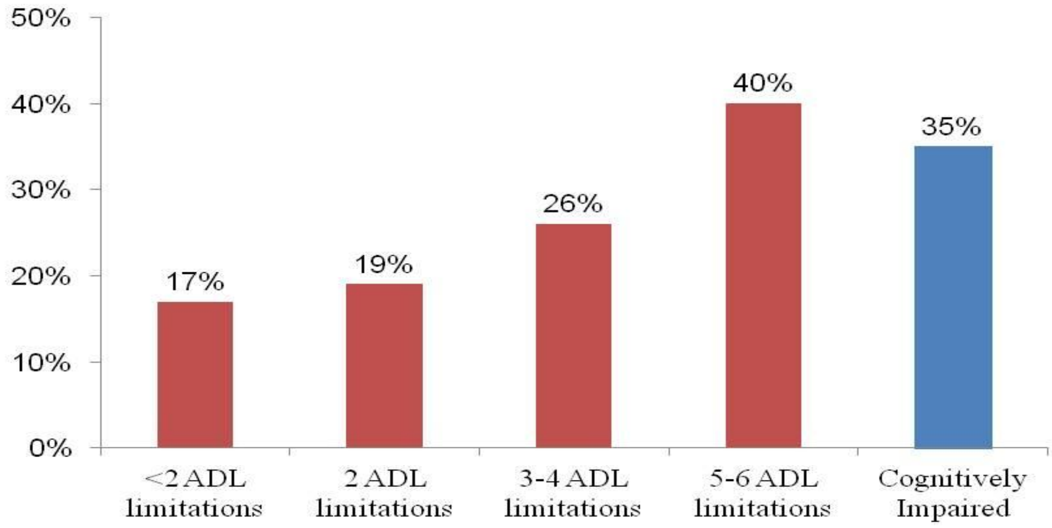
Mortality rates for those with dementia are almost as great as for those with 5-6 ADL limitations 21 months after initial claim



Source: ASPE, 2008

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Most claimants are well served by companies when it comes to claims payments

- More than $35 billion paid in claims and now >$4 billion per year
- Data suggests that roughly 95% of all claims are paid.
- Of people receiving claims payments, 94% had no disagreement with the insurer and 3% had a disagreement that was resolved satisfactorily.
- Vast majority of claimants indicate that policy benefits met their care needs; 90% felt their policy provided flexibility in service choice.
- The insurance covers a significant percentage of the daily costs of care -- (between 72% and 98%).
- Half of claimants felt that in the absence of their policy, they would have to seek institutional care or would not be able to afford service levels.
- Most people do not find it difficult to file a claim (77%).

Source: U.S. Department of Health and Human Services, 2010

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RECENT TRENDS:

SIGNIFICANT MARKET EXIT

AMONG MAJOR CARRIERS

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Roughly a dozen companies are still selling a meaningful numbers of policies; in 2002, AHIP reported 102 companies selling policies

Currently Selling	Closed Blocks
Genworth Life Insurance Company/ Genworth Life Insurance Company of NY	Unum Life Insurance Company of America First Unum Life Insurance Company Metropolitan Life Insurance Company
John Hancock (Individual Policies)	John Hancock Group Metlife Insurance Company of CT
Bankers Life & Casualty Company Transamerica Life Insurance Company	Continental Casualty Company Prudential Insurance Company of America RiverSource Life Insurance Company
State Farm Mutual Auto Insurance Company	Allianz Life Insurance Company of North America Senior Health Insurance Company of PA
New York Life Insurance Company	Penn Treaty Aetna Life Insurance Company
Northwestern Long Term Care Insurance Company	Lincoln Benefit Life Company Union Security Insurance Company
Mutual of Omaha Insurance Company	Time Insurance Company Ability Insurance Company
Massachusetts Mutual Life Insurance Company	United Teacher Assoc Insurance Company American Family Life Assurance Company of Colorado
Medamerica Insurance Company/ Medamerica Insurance Company of NY	Monumental Life Insurance Company Kanawha Insurance Company CUNA Mutual Insurance Society
Knights of Columbus	Physicians Mutual Insurance Company Provident Life & Accident Insurance Company
Thrivent Financial For Lutherans	WEA Insurance Corp Guarantee Trust Life Insurance Company Southern Farm Bureau Life Insurance Company WEA Insurance group is still marketing a small number of Partnership policies.

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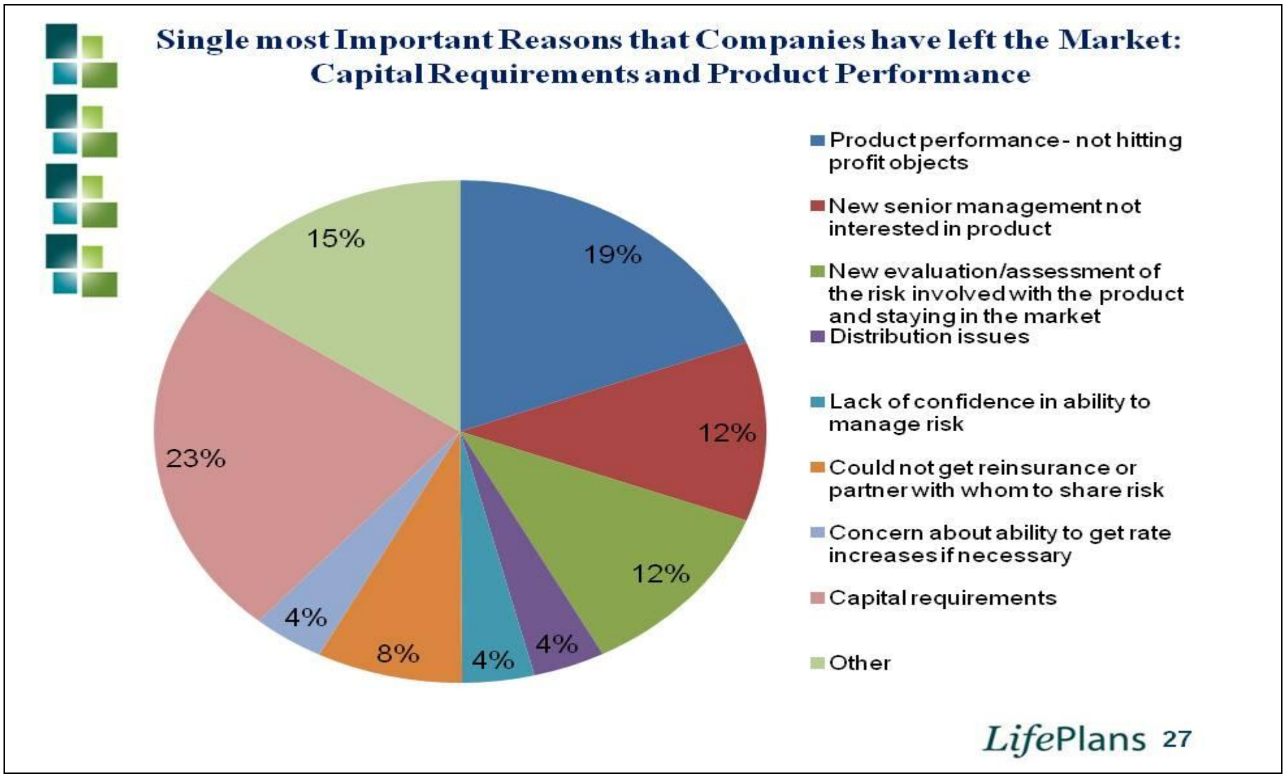
Single most Important Reasons that Companies have left the Market: Capital Requirements and Product Performance
19%
12%
12%
4%
4%
8%
4%
23%
15%
Product performance - not hitting profit objects
New senior management not interested in product
New evaluation/assessment of the risk involved with the product and staying in the market
Distribution issues
Lack of confidence in ability to manage risk
Could not get reinsurance or partner with whom to share risk
Concern about ability to get rate increases if necessary
Capital requirements
Other
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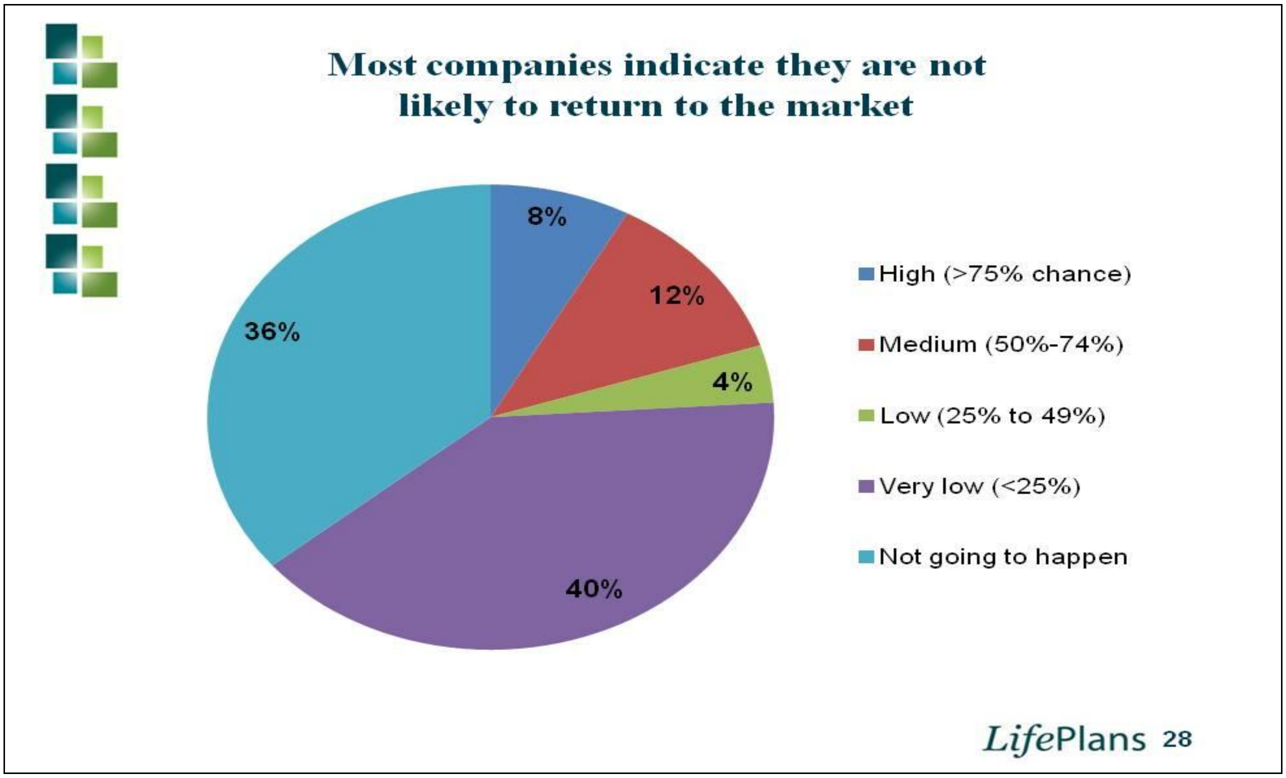
Most companies indicate they are not likely to return to the market
8%
12%
4%
40%
36%
High (>75% chance)
Medium (50%-74%)
Low (25% to 49%)
Very low (<25%)
Not going to happen
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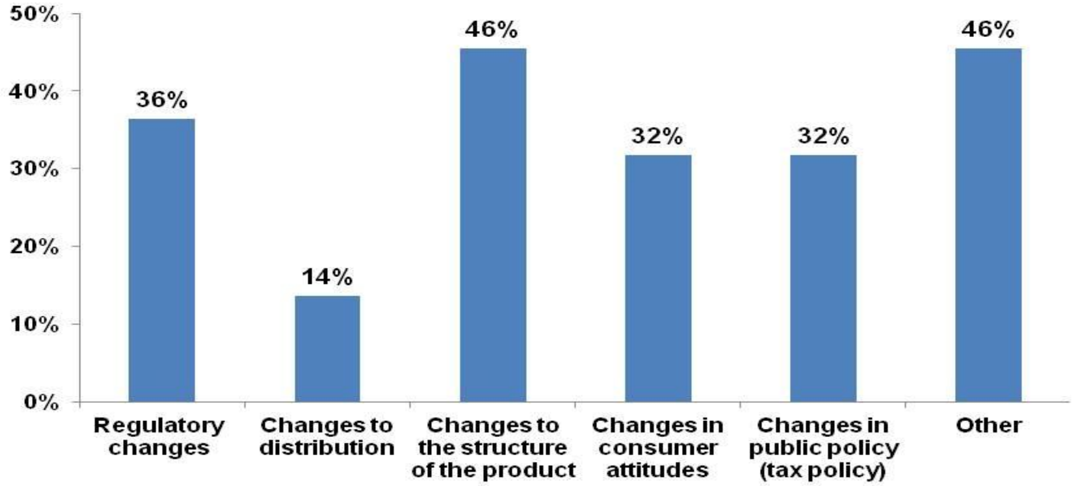
Circumstances under which Company would consider re-entering Market



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Key Demand and Supply Issues in the Market

Demand

- Lack of information/shrouded attributes
- Misperceptions about need, costs, and coverage
- Myopia
- Consumer confusion/product complexity
- Mistrust of industry/contracts

Supply

- Adverse selection
- High selling costs
- Inefficient risk-bearing: common shocks

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Key Demand and Supply Solutions

Demand-related

- Simplify/standardize products
- Index premiums
- Educational campaign and warnings
- Expanded employer role
- Mandated availability
- Smart opt-out/ forced-choice
- Targeted subsidy

Supply-related

- Reinsurance pool
- Expanded employer role
- Joint marketing with health insurance

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Conclusions

- By all measures private market is not meeting initial expectations
- Public policy and regulatory approaches should be designed to help the industry "Re-set" to attract middle market buyers:
  - Lower the cost of policies,
  - Allow greater product funding-flexibility,
  - Support new forms of combination-products,
  - Encourage strategies that help to minimize risks outside of the control of companies to "de-risk "to lower capital requirements
- Important to provide companies with more certainty around rate relief regulatory policy

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