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

Presented to
Advisory Council on Alzheimer’s Research, Care, and Services

by
Marc A. Cohen, Ph.D.
LifePlans, Inc.

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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
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*
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.
CHARACTERISTICS OF
PRODUCTS AND PURCHASERS

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)
### Policies have become more comprehensive with richer benefits

<table>
<thead>
<tr>
<th>Policy Characteristics</th>
<th>Average for 2010</th>
<th>Average for 2005</th>
<th>Average for 2000</th>
<th>Average for 1995</th>
<th>Average for 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy Type</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nursing Home Only</td>
<td>2%</td>
<td>3%</td>
<td>14%</td>
<td>33%</td>
<td>63%</td>
</tr>
<tr>
<td>Nursing Home &amp; Home Care</td>
<td>92%</td>
<td>90%</td>
<td>77%</td>
<td>61%</td>
<td>37%</td>
</tr>
<tr>
<td>Home Care Only</td>
<td>6%</td>
<td>7%</td>
<td>9%</td>
<td>6%</td>
<td>---</td>
</tr>
<tr>
<td><strong>Daily Benefit Amount for NH Care</strong></td>
<td>$154</td>
<td>$142</td>
<td>$109</td>
<td>$85</td>
<td>$72</td>
</tr>
<tr>
<td><strong>Daily Benefit Amount for Home Care</strong></td>
<td>$153</td>
<td>$155</td>
<td>$106</td>
<td>$78</td>
<td>$36</td>
</tr>
<tr>
<td><strong>Nursing Home Only Elimination Period</strong></td>
<td>86 days</td>
<td>80 days</td>
<td>65 days</td>
<td>59 days</td>
<td>20 days</td>
</tr>
<tr>
<td><strong>Integrated Policy Elimination Period</strong></td>
<td>89 days</td>
<td>81 days</td>
<td>47 days</td>
<td>46 days</td>
<td>---</td>
</tr>
<tr>
<td><strong>Nursing Home Benefit Duration</strong></td>
<td>4.8 years</td>
<td>5.4 years</td>
<td>5.5 years</td>
<td>5.1 years</td>
<td>5.6 years</td>
</tr>
<tr>
<td><strong>Percent Choosing Inflation Protection</strong></td>
<td>92%</td>
<td>76%</td>
<td>41%</td>
<td>33%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Annual Premium</strong></td>
<td>$2,268</td>
<td>$1,913</td>
<td>$1,677</td>
<td>$1,505</td>
<td>$1,071</td>
</tr>
</tbody>
</table>

Source: AHIP, 2011

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### As policies have become more comprehensive and actuarial assumptions “trued up”, premiums have increased

![Premiums Graph]

- **Premium Increase: 1995-2010**:
  - age 55-64: 145%
  - age 65-69: 134%
  - age 70-74: 115%
  - age 75+: 81%

Source: AHIP, 2011
### Younger, wealthier and employed individuals are buying policies

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<thead>
<tr>
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<tbody>
<tr>
<td><strong>Average Age</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>% &gt; 70</td>
<td>8%</td>
<td>16%</td>
<td>40%</td>
<td>49%</td>
<td>42%</td>
</tr>
<tr>
<td><strong>% Married</strong></td>
<td>69%</td>
<td>73%</td>
<td>70%</td>
<td>62%</td>
<td>68%</td>
</tr>
<tr>
<td><strong>Median Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% &gt; $50,000</td>
<td>$87,500</td>
<td>$62,500</td>
<td>$42,500</td>
<td>$30,000</td>
<td>$27,000</td>
</tr>
<tr>
<td>77%</td>
<td>71%</td>
<td>42%</td>
<td>20%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td><strong>Median Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% &gt; $75,000</td>
<td>$325,000</td>
<td>$275,000</td>
<td>$225,000</td>
<td>$87,500</td>
<td>N.A.</td>
</tr>
<tr>
<td>82%</td>
<td>83%</td>
<td>77%</td>
<td>49%</td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td><strong>% College Educated</strong></td>
<td>71%</td>
<td>61%</td>
<td>47%</td>
<td>36%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>% Employed</strong></td>
<td>69%</td>
<td>71%</td>
<td>35%</td>
<td>23%</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

Source: AHIP, 2011

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

<table>
<thead>
<tr>
<th>Income Level</th>
<th>1995</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle Income</td>
<td>41%</td>
<td>36%</td>
</tr>
<tr>
<td>Low Income</td>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
<td>Upper Income</td>
<td>42%</td>
<td>55%</td>
</tr>
</tbody>
</table>

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

Source: LifePlans analysis of AHIP Buyer Data, 2011
Most people choose not to buy policies because they are viewed as too costly (2010)

- Don't Believe Insurers: 18%
- Hard to Choose Policy: 13%
- Too Costly: 61%
- Waiting for Better Policy: 20%

Source: AHIP, 2011

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

- Avoid Dependence: 18%
- Protect Assets/Leave an Estate: 33%
- Guarantee Affordability: 13%
- Protect Living Standards: 18%
- One of Other Reasons: 17%

Source: AHIP, 2011
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.
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”

<table>
<thead>
<tr>
<th>Duration</th>
<th>% of Claims Costs Attributable to Dementia Claims</th>
<th>% of Costs Attributable to Non-Dementia Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2 Years</td>
<td>32%</td>
<td>68%</td>
</tr>
<tr>
<td>2-3 years</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>3-4 years</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td>4-5 years</td>
<td>49% 51%</td>
<td></td>
</tr>
<tr>
<td>5-6 years</td>
<td>52% 48%</td>
<td></td>
</tr>
</tbody>
</table>

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Slightly less than half of new claims have dementia and most receive care in institutional settings

<table>
<thead>
<tr>
<th>Service Setting</th>
<th>46%</th>
<th>28% 30%</th>
<th>26%</th>
<th>63% 44%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total New Claimants</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Home Care Claimants</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Assisted Living Claimants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nursing Home Claimants</td>
<td></td>
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</tr>
</tbody>
</table>

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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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
**RECENT TRENDS:**

**SIGNIFICANT MARKET EXIT AMONG MAJOR CARRIERS**

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

<table>
<thead>
<tr>
<th>Currently Selling</th>
<th>Closed Blocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Genworth Life Insurance Company/Genworth Life</td>
<td>Unum Life Insurance Company of America</td>
</tr>
<tr>
<td>Insurance Company of NY</td>
<td>First Unum Life Insurance Company</td>
</tr>
<tr>
<td>John Hancock (Individual Policies)</td>
<td>Metropolitan Life Insurance Company</td>
</tr>
<tr>
<td>BankersLife &amp; Casualty Company</td>
<td>John Hancock Group</td>
</tr>
<tr>
<td>Transamerica Life Insurance Company</td>
<td>MetLife Insurance Company of CT</td>
</tr>
<tr>
<td>State Farm Mutual Auto Insurance Company</td>
<td>Continental Casualty Company</td>
</tr>
<tr>
<td>New York Life Insurance Company</td>
<td>Prudential Insurance Company of America</td>
</tr>
<tr>
<td>Northwestern Long Term Care Insurance Company</td>
<td>RiverSource Life Insurance Company</td>
</tr>
<tr>
<td>Mutual of Omaha Insurance Company</td>
<td>Alliance Life Insurance Company of North America</td>
</tr>
<tr>
<td>Massachusetts Mutual Life Insurance Company</td>
<td>Senior Health Insurance Company of North America</td>
</tr>
<tr>
<td>MedAmerica Insurance Company/MedAmerica Insurance</td>
<td>Penn Treaty</td>
</tr>
<tr>
<td>Company of NY</td>
<td>Aetna Life Insurance Company</td>
</tr>
<tr>
<td>Knights of Columbus</td>
<td>Lincoln Benefit Life Company</td>
</tr>
<tr>
<td>Thrivent Financial For Lutherans</td>
<td>Union Security Insurance Company</td>
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<td></td>
<td>Time Insurance Company</td>
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<tr>
<td></td>
<td>Ability Insurance Company</td>
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<tr>
<td></td>
<td>United Teacher Association Insurance Company</td>
</tr>
<tr>
<td></td>
<td>American Family Life Insurance Company of Colorado</td>
</tr>
<tr>
<td></td>
<td>Monument Life Insurance Company</td>
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<tr>
<td></td>
<td>Kanawha Life Insurance Company</td>
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<tr>
<td></td>
<td>CLINA Mutual Insurance Society</td>
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<tr>
<td></td>
<td>Physicians Mutual Insurance Company</td>
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<tr>
<td></td>
<td>Provident Life &amp; Accident Insurance Company</td>
</tr>
<tr>
<td></td>
<td>WEA Insurance Corp</td>
</tr>
<tr>
<td></td>
<td>Guarantee Trust Life Insurance Company</td>
</tr>
<tr>
<td></td>
<td>Southern Farm Bureau Life Insurance Company WEA</td>
</tr>
</tbody>
</table>

Insurance group is still marketing a small number of Partnership policies.
**Single most Important Reasons that Companies have left the Market:**

- Product performance - not hitting profit objects (15%)
- New senior management not interested in product (19%)
- New evaluation/assessment of the risk involved with the product and staying in the market (12%)
- Distribution issues (12%)
- Lack of confidence in ability to manage risk (8%)
- Could not get reinsurance or partner with whom to share risk (4%)
- Concern about ability to get rate increases if necessary (4%)
- Capital requirements (4%)
- Other (4%)

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**Most companies indicate they are not likely to return to the market**

- High (>75% chance) (36%)
- Medium (50%-74%) (12%)
- Low (25% to 49%) (8%)
- Very low (<25%) (4%)
- Not going to happen (40%)

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Circumstances under which Company would consider re-entering Market

- Regulatory changes: 36%
- Changes to distribution: 14%
- Changes to the structure of the product: 46%
- Changes in consumer attitudes: 32%
- Changes in public policy (tax policy): 32%
- Other: 46%

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

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