



Joint Colloquium of the IACA, PBSS and IAAHS Sections of the International Actuarial Association

Westin Copley Place Hotel, Boston, U.S.A. – 4-7 May 2008

Financing Long Term Care

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Financing Proposal Summary*

◆ Private LTCI Promotion

- Standardized Policies & Lower Price
- Medi-LTC
- Tax Deduction for Premiums
- Mandatory Savings to Pay Premiums
- Optional LTC Benefit in Medicare Linked to Private Insurance
- Trade-Off Principle

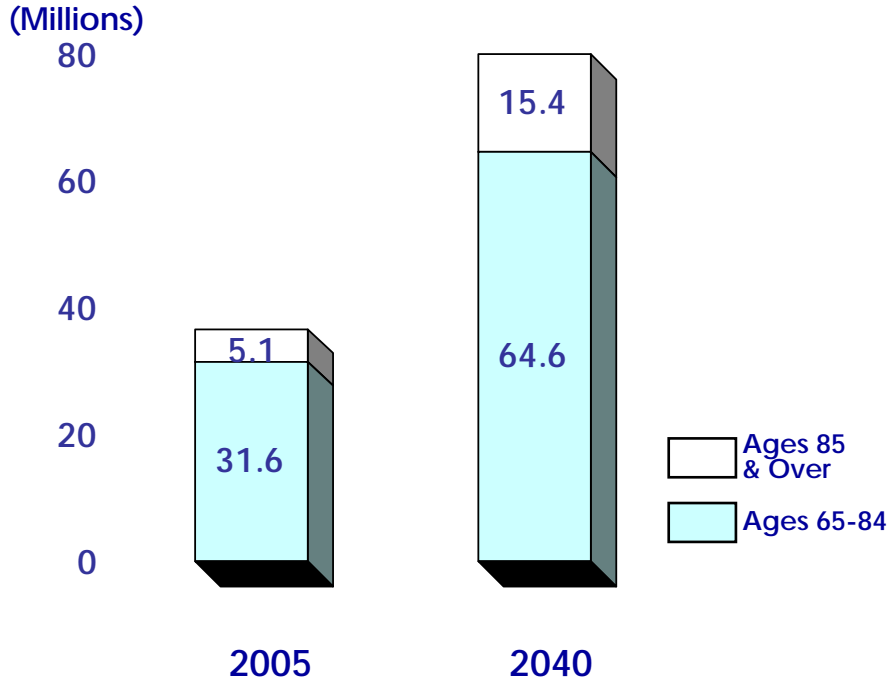
◆ Social Insurance

- Catastrophic LTC Insurance
- Basic LTC Benefit Financed by Social Security Benefits
- Universal LTC
- Voluntary Federal Program Through Payroll Deduction
- Medicare LTC Benefit Financed by an Income Tax Surcharge
- Social Insurance a la Germany

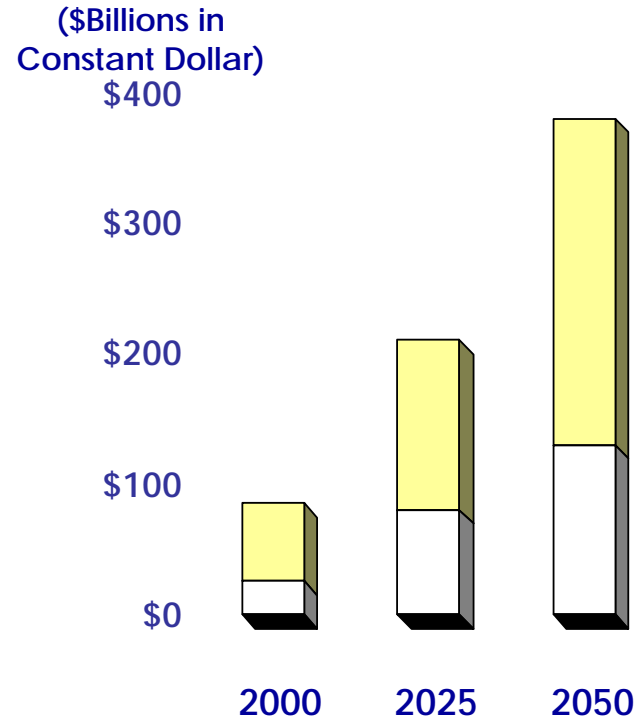
* *LTC Financing: Policy Options for the Future* J. Feder, H. Komisar, R. Freidland, June 2007

Demographics

Elderly Population will More Than Double by 2040



Projected Elderly LTC Expenditures Could Nearly Quadruple by 2050



But Support is Declining

Number of Workers Per Elderly



Long Term Care Defined

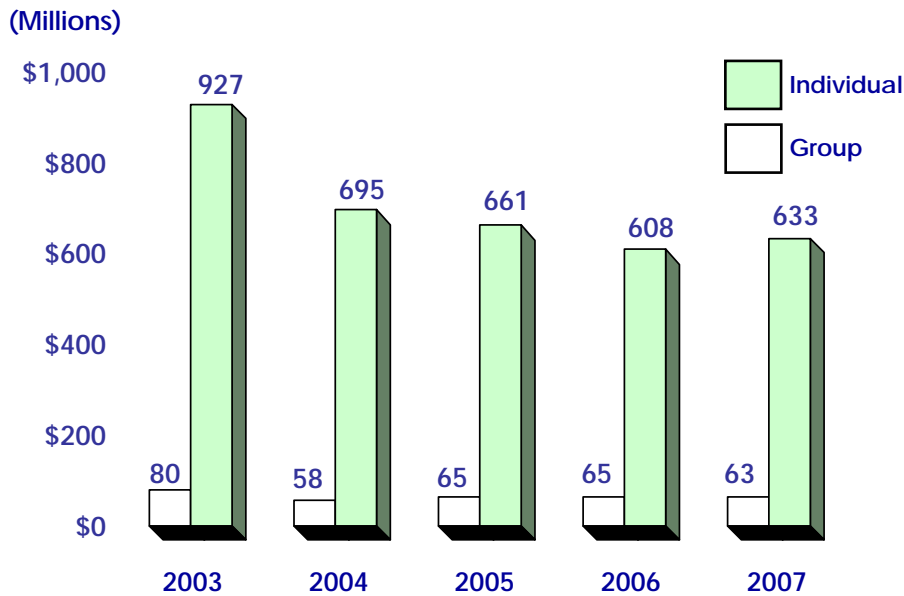
Elderly Health Care Continuum

	<i>Acute</i>	<i>Long Term Care</i>	<i>Terminal</i>
<i>Need</i>	Intensive Medical Care	Supervisory & Nursing Care	Final Stage Before Death
<i>Typical Stay</i>	1-90 Days	3-48 Months	1-3 Months
<i>Setting</i>	Hospital	Facility & Home	Hospice
	<i>Nursing Home</i>	<i>Assisted Living Facility (ALF)</i>	<i>Home Care</i>
<i>Services</i>	<ul style="list-style-type: none"> • Skilled to Custodial Care • 24/7 Nursing Support 	<ul style="list-style-type: none"> • Custodial Care • Nurses on Staff 	<ul style="list-style-type: none"> • Low to Moderate Care • Therapist/Home Aide Visits
<i># Elderly Users</i>	1.6MM	1.0MM	5.5MM
<i>% Elderly Pop.</i>	4.3%	2.7%	14.9%
<i>Cost/Year (2006)*</i>	\$66K	\$33K	\$16K (excludes informal/unpaid care)
<i>Cost/Day</i>	\$180	\$90	\$25 Per Hour

* Genworth 2007 Cost of Care Survey

LTCI Sales

New Sales by Premium



New Individual Sales by Number of Lives

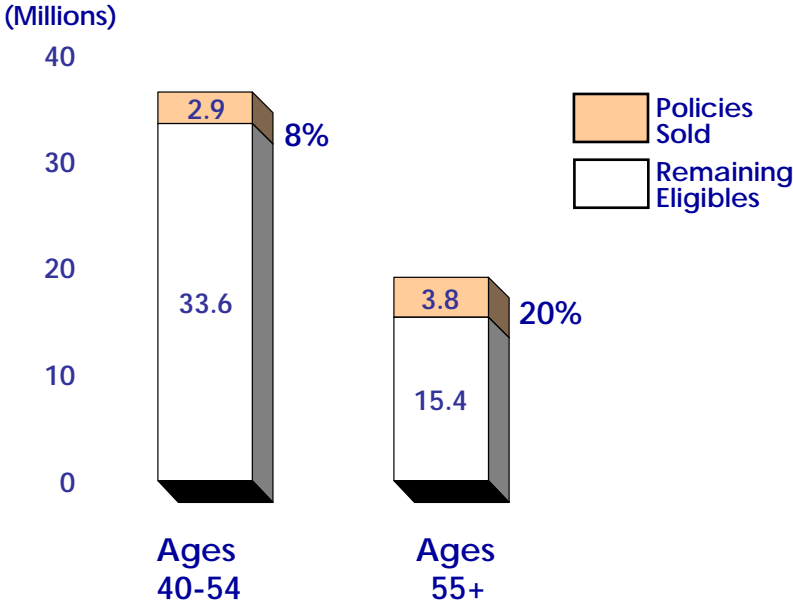


Market

Considerable Penetration at Older Ages

Dominance by a Few

Estimated LTCI Sold Among Income & Health Eligibles



2005 Market Share by In-Force Premium (Total Individual & Group: \$8.2 Billion)

Genworth	18.4%
John Hancock	10.6%
Conseco	9.8%
MetLife	8.1%
CNA	7.0%
Aegon	6.1%
UNUM	5.4%
Others	32.9%
Total	100.0%

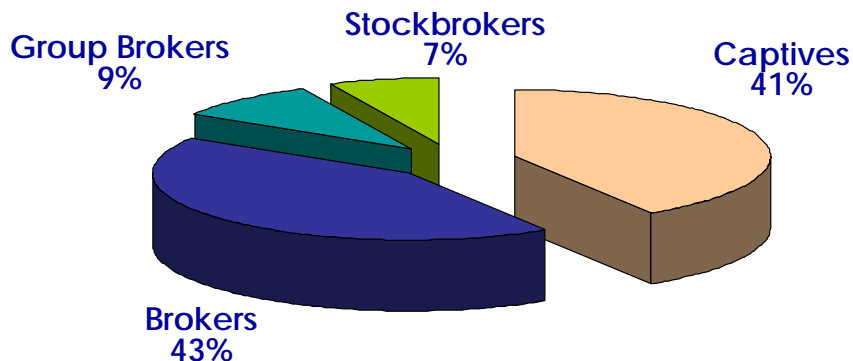
About 1/3 Policies are in Closed Blocks

Distribution

Distribution Method	Key Sales Attributes
<i>Independent Agents</i> LTC Specialists Brokers Financial Planners	<ul style="list-style-type: none"> Existing Relationship Referrals from Other Agents Regional Sales Support In Context of Financial Planning
<i>Captive Agents</i>	<ul style="list-style-type: none"> Typically Direct Mail Solicitation No Prior Relationship
<i>Stockbrokers</i>	<ul style="list-style-type: none"> Hit & Miss by Some Financial Institutions & Broker-Dealers
<i>Group Brokers</i>	<ul style="list-style-type: none"> Leveraging Health Coverage Relationship

Evenly Split Between Brokers & Captives

2005 New Premiums by Distribution



Singular Sale Approach

2005 Individual New Premiums (\$Millions)

Traditional Face-to-Face	\$581	88%
Association/Affinity	\$40	6%
Worksite	\$28	4%
Financial Institution	\$8	1%
Direct Response & Other	\$4	1%
Total	\$661	100%

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Critical Product Characteristics

- ◆ Guaranteed Renewability
 - Can Adjust Premiums by Risk Class
- ◆ Activities of Daily Living (ADL) & Cognitive Impairment Benefit Triggers
 - Objective & Effective Criteria
 - Common Eligibility Criteria for All Policies
- ◆ Fixed Benefits
 - Specified Policy Maximum, Daily Maximum & Inflation Protection Increases Insulate Policies from Inflation Risk
- ◆ Comprehensive Coverage
 - Substitution Effect Between Nursing Home, Assisted Living Facility (ALF) & Home Health Care
- ◆ Federal Tax Qualification
 - Tax-Free Benefits & Tax Deduction of Premium Under Medical Expense Deduction
 - Maintains Relatively High Eligibility Threshold – 2 of 6 ADLs
 - Keeps Superfluous Benefits Out of Policy

Product Choices & Options

Benefit Choices

- ◆ **Daily Benefit Maximum**
 - \$30 - \$400 Daily Maximum
 - Weekly or Monthly Available
- ◆ **Reimbursement or Cash**
 - Reimburse Actual Charges Up to Daily Maximum, or
 - Cash Benefit = % of Daily Maximum (30% to 100%)
- ◆ **Policy Benefit Maximum**
 - 2, 3, 4 Years, etc. Times Daily Maximum
 - Unlimited Available
 - Works Like a Bank Account
- ◆ **Elimination Period (Days Before Benefit Payments Commence)**
 - 0, 30, 90, 180 Day Typical
 - 0 Day for Home Care Available
 - Need to Satisfy Only Once
- ◆ **Shared Benefit**
 - Allows Couple to Share a Single Benefit Pool
- ◆ **Comprehensive, Facility Only, Home Care Only**

Policy Options

- ◆ **Inflation Protection**
 - Daily Maximum and Policy Maximum Annual Increases
 - Increases for Life or Fixed Period
 - 5% Compound, 5% Simple, Other %
 - Guaranteed Purchase Option of Additional Amount at Attained Age Entry Premiums
- ◆ **Alternate Plan of Care**
 - Pays Out-Of-Contract Benefits Subject to Insurer's Approval
- ◆ **Paid-Up**
 - Premiums Stop at Age 65, 20 Years, etc.
 - Single Premium Available
- ◆ **Reduced or Expanded Home Care Benefit**
 - 50%, 75% or 150% of Facility Daily Maximum
- ◆ **Restoration of Benefits**
 - Policy Benefit Maximum Restored if Not Claim Eligible for 180 Days Following Recovery
- ◆ **Nonforfeiture**
 - Reduced Paid-Up Coverage if Lapsed

Rate Stability Saga

- ◆ Loss Ratio Requirement – Prior to 2002
 - 60% Lifetime Loss Ratio
 - Can Raise Premium Rates if Not Met

- ◆ Rate Increases Became Prevalent
 - “Predatory Pricing” under Loss Ratio Requirement
 - Competitive Pressure on Prices
 - Lack of Credible Insured Experience by Most Insurers

- ◆ Rate Stability Regulations – Post 2002
 - No Loss Ratio Requirement at Initial Filing
 - If Experience Proven Worse Than Expected:
 - 58% Loss Ratio Requirement on Original Premiums
 - 85% on Increased Premiums
 - Pricing Must Include Margins for Adverse Deviation
 - Increasing Penalties & Reporting Requirements for Repeated Rate Increases

Where is LTCI Heading?

◆ Product Features

- Wellness Benefits
- Cost-Sharing Benefits
- Combinations with Life, Annuity, Critical Illness & Disability Income
- Lower Premium Schedules

◆ Markets

- Worksites
- Associations & Affiliated Groups
- Web-Assisted & Tele-Sales
- Financial Planners
- Streamlined Underwriting

◆ Regulations

- Tax Incentives
- Experience Exhibit
- Principle-Based Reserves

Changes in Social Trends (1970 - 2000)

	<u>1970</u>	<u>2000</u>
◆ Female Labor Force Participation Rate	42%	58%
◆ Divorced (% of adults)	3%	9.9%
◆ Unmarried adults	38 mil	87 mil
◆ Never-married adults (% of all adults)	16%	24%

Declining Percentages of Married Adults (1970 - 2000)

- ◆ 15% drop among whites, from 73% to 62%
- ◆ 36% drop among blacks, from 64% to 41%
- ◆ 18% drop among Hispanics, from 72% to 59%

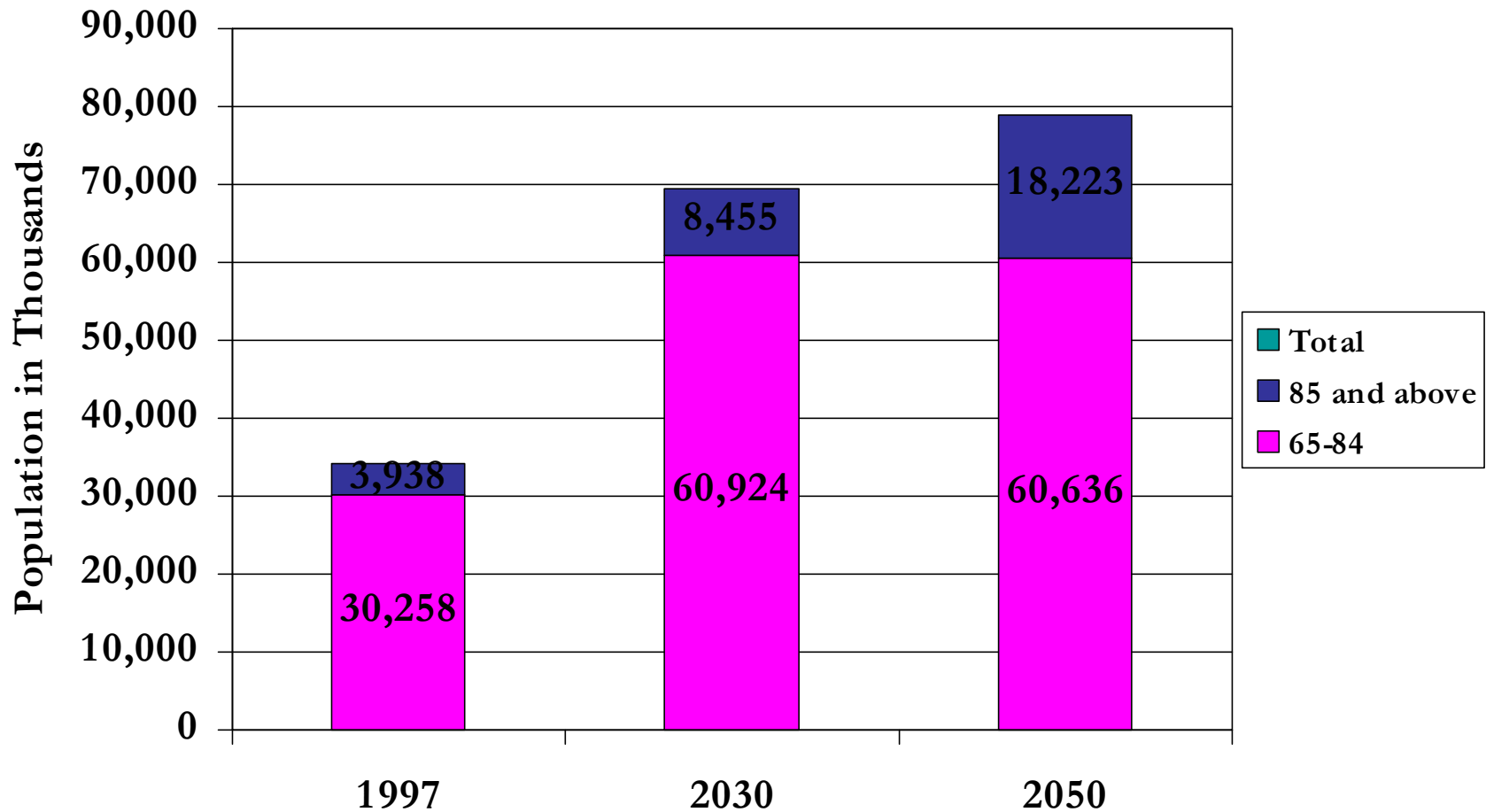
Increase in Never-Married Persons (1970 - 2000)

- ◆ 31% increase (from 16% to 21%) for whites
- ◆ 86% increase (from 21% to 39%) for blacks
- ◆ 53% increase (from 19% to 29%) for Hispanics

**Funding Long-Term Care:
Applications Of
The Trade-Off Principle
In Both Public And Private Sectors
or
An Intragenerational Funding Model for
Long-Term Care**

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Census Bureau Estimates of Number of Elderly Individuals in 1997, 2030, and 2050



Aging of the Elderly Population in the U.S. (in millions)

	2000	2030	2050
Age 65-84	30	60	60
Age 85+	4	9	18

Defining Long-Term Care

- ◆ Medical, nursing, social, and personal services
- ◆ At home, in the community, or in an institution
- ◆ Extended period of time
- ◆ Functional impairment (activities of daily living—ADLs)
 - Bathing
 - Dressing
 - Eating
 - Transferring
 - Toileting
 - Contenance
- ◆ Cognitive Impairment

Types of Long-Term Care

- ◆ Informal (non-paid)—family and friends
- ◆ Formal (paid)—professional providers

Reasons for Less Informal Care

- ◆ Geographic dispersion of family members
- ◆ More women working in paid labor force
- ◆ Smaller families
 - fewer children per family
 - more childless families
 - higher divorce rates
 - more single-parent families
- ◆ Impairments of adult children themselves

Tests for Insurability of a Risk

- ◆ Involuntary risk
- ◆ Economic loss incurred
- ◆ Verifiable risk
- ◆ Law of large numbers
- ◆ Contingency falling on a small proportion at one time
- ◆ Predictable risk

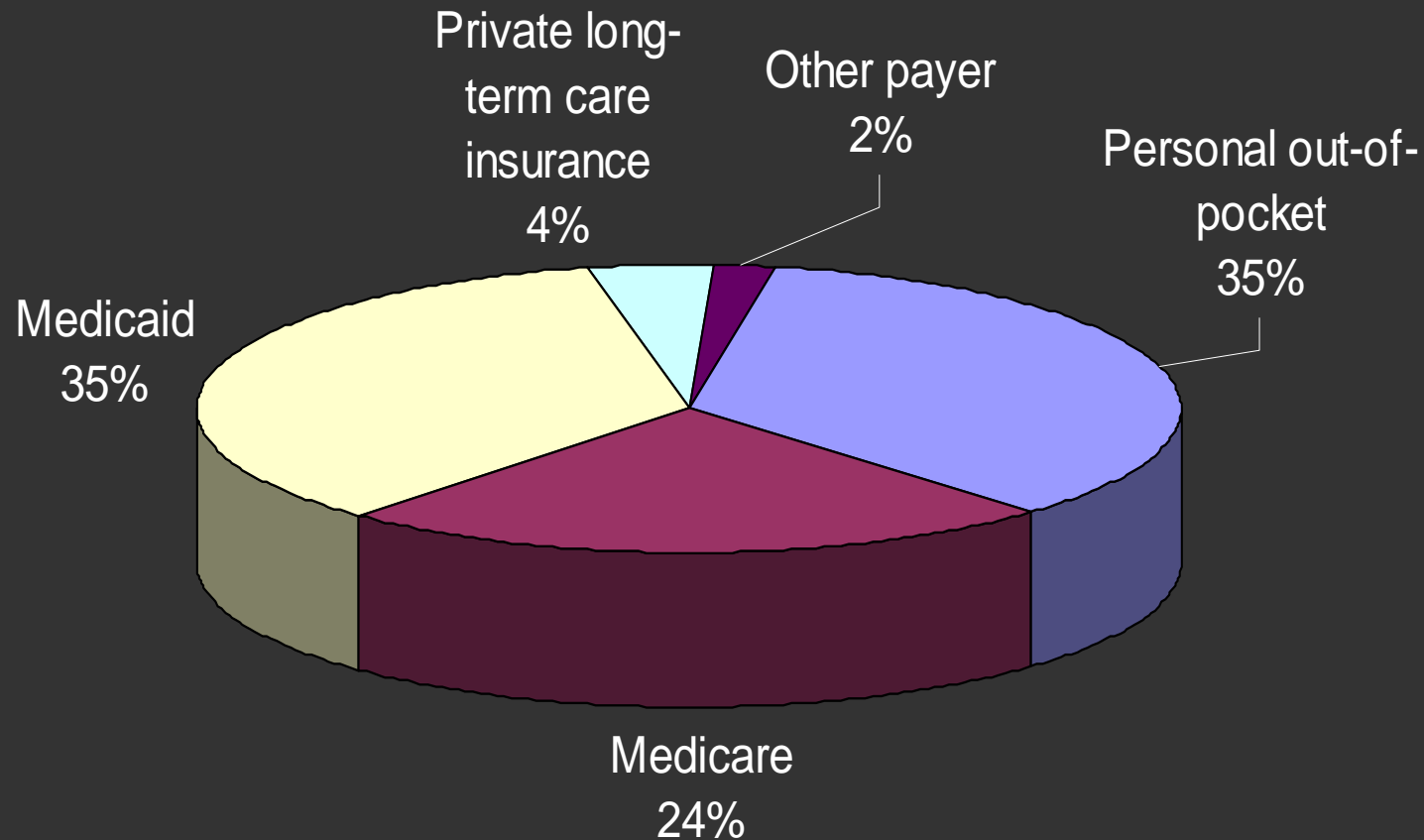
Long-Term Care as an Insurable Risk

- ◆ Need for LTC
 - predictably small proportion of population
 - costs may be substantial or even catastrophic
- ◆ Risk pooling limits an individual's financial exposure
- ◆ Insurance in private and public sectors

Present Pattern of Funding in the U.S.

- ◆ Out of pocket (personal savings)
- ◆ Medicaid (public welfare)
- ◆ Medicare (social insurance)
- ◆ Private insurance

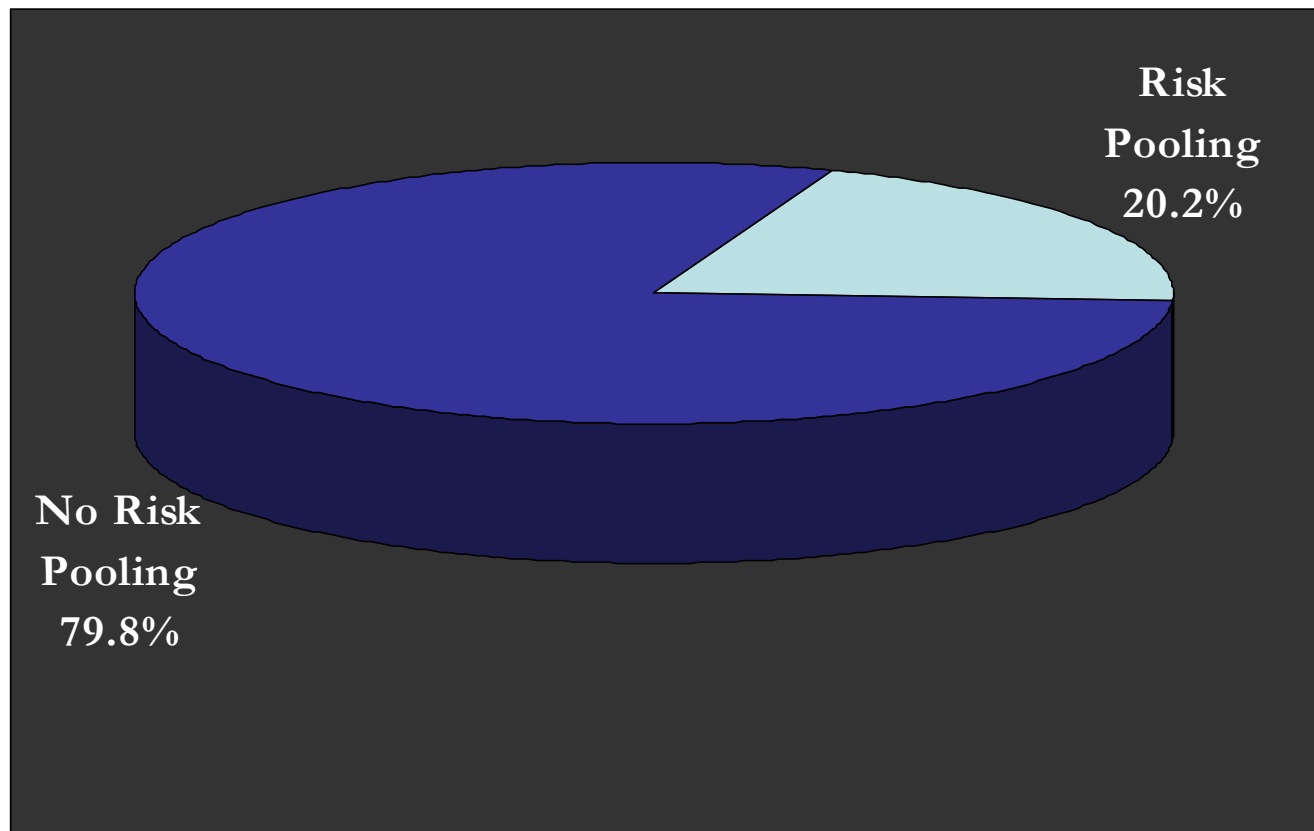
Formal Long-Term Care Expenditures for the Elderly, 2000



Source: Based on projections in Congressional Budget Office (2000).

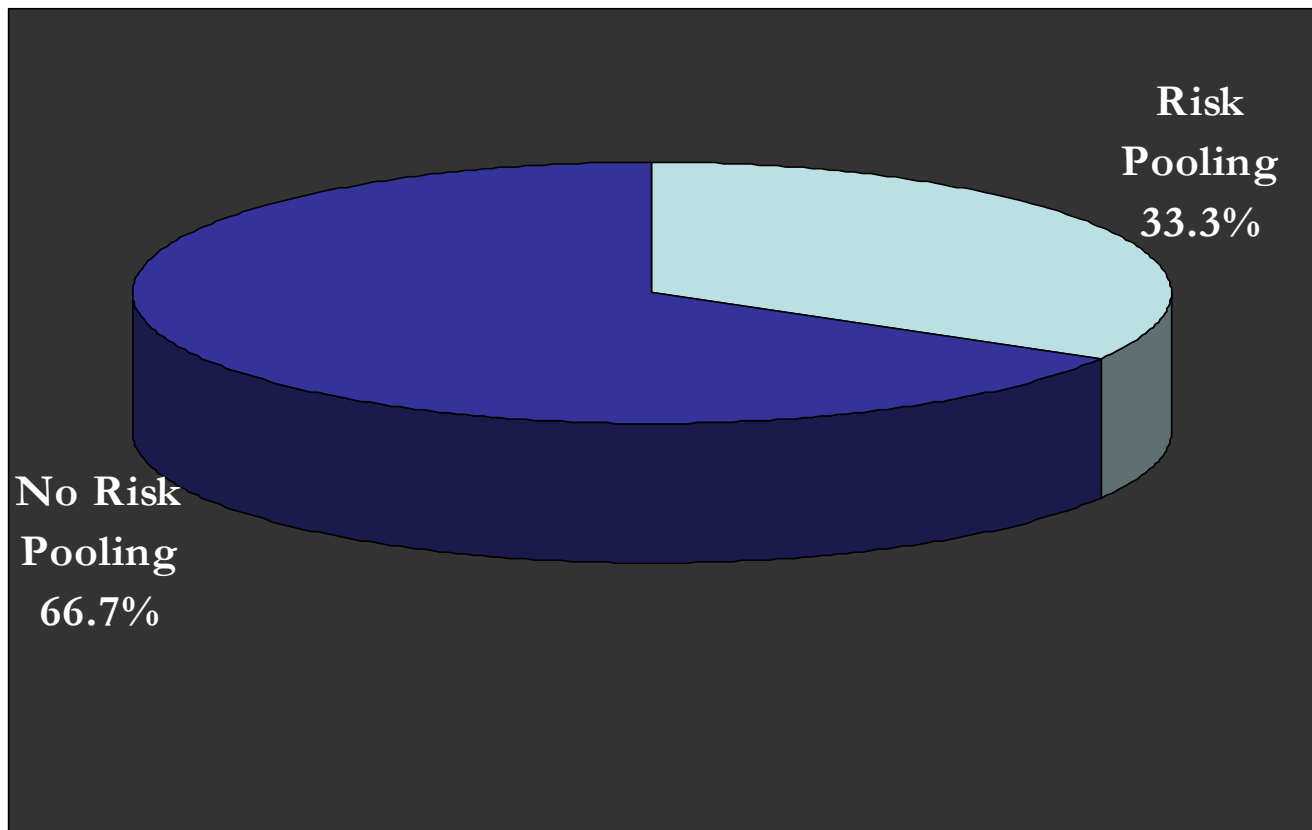
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Public and Private Sectors Combined



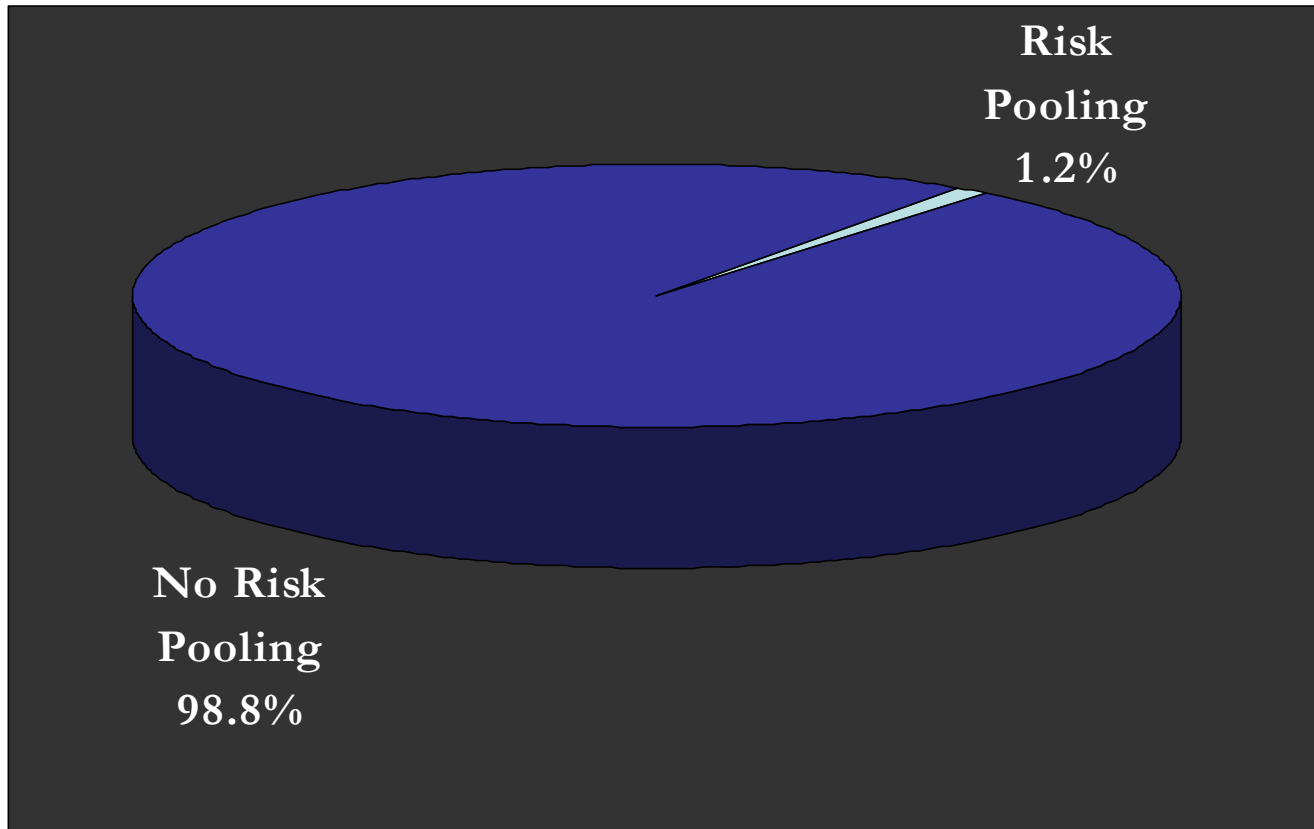
Formal Long-Term Care Expenditures for the Elderly, 2000

Public Sector



Formal Long-Term Care Expenditures for the Elderly, 2000

Private Sector



Impediment to Social and Private Insurance Programs

- ◆ Competition for funds
 - Social insurance vs. general health, education, welfare, and other expenditures
 - Private insurance vs. other consumption outlays

Lack of Penetration by Private Insurance: Demand Factors

- ◆ High costs
- ◆ “Use it or lose it”
- ◆ Exclusions (the “fine print” problem)
- ◆ Can self-insure
- ◆ Rely on public welfare (Medicaid)
- ◆ Procrastination
- ◆ Uninsurable
- ◆ Will never need it
- ◆ Long lapse of time between sales/purchase and use

Lack of Penetration by Private Insurance: Supply Factors

- ◆ Moral hazard (greater use of services induced by insurance)
- ◆ Adverse selection (buyers are those who “know” they will likely need LTC services)
- ◆ Problems for the sales force
- ◆ Long lapse of time between sales / purchase and use

Guiding Principles for LTC Funding

- ◆ Insurance in public and private sectors
- ◆ The trade-off principle

Sharing Public and Private Responsibility: A three-legged stool approach

- ◆ Retirement income
- ◆ Acute health care
- ◆ Long-term care

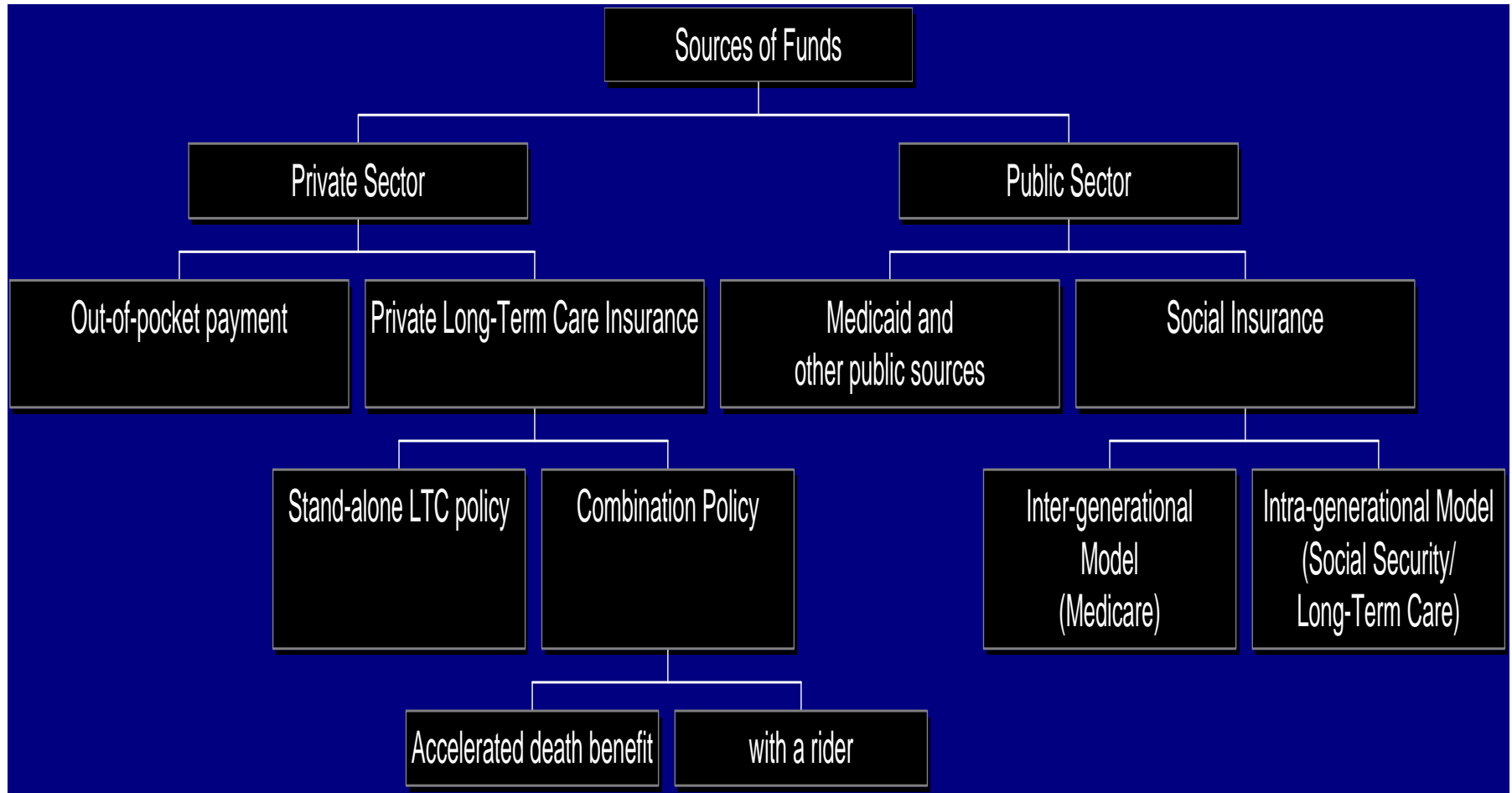
A Three-legged Stool Approach: Retirement Income

- ◆ Social insurance as a floor of protection
- ◆ Employment-based (occupational) pensions as supplement
- ◆ Personal savings as supplement
- ◆ [Public assistance as safety net when three legs prove insufficient]

A Three-legged Stool: Acute Health Care

- ◆ Medicare
- ◆ Employer-provided health benefits
- ◆ Medicare Supplemental (Medigap) policies
- ◆ [Medicaid as a safety net for the poor]

Funding Long-Term Care: A Schematic View



Estimated revenue for the proposed Long-Term Care (LTC) Trust Fund in first 5 years of operation (no disbursements) (All dollar amounts are in billions)

Calendar year	Social Security (OASDI) benefit payments	Annual contributions to the LTC Trust Fund		Interest rate for contributions in the year	LTC Trust Fund accumulated at the end of the year
		Percent of OASDI benefits	Amount		
1996	\$355.0	1%	\$3.6	6.0%	\$3.7
1997	\$374.9	2%	\$7.5	6.0%	\$11.7
1998	\$396.1	3%	\$11.9	6.1%	\$24.7
1999	\$419.0	4%	\$16.8	6.3%	\$43.5
2000	\$444.2	5%	\$22.2	6.4%	\$69.1

Note: OASDI benefits and interest rates are those projected under the alternative II (intermediate) assumptions in the 1993 Annual Report of the Trustees.

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