



# Financing Long-Term Care: The Private Insurance Market

Presented to

The National Health Policy Forum

by

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# Presentation Topics

- ◆ Background on long-term care (LTC) financing, risk and costs
- ◆ Current overview of U.S. Market
  - ◆ Dimensions of Market
    - Number of Insureds
    - Number of Insurers
    - Number of Employer Groups
- ◆ Profile of individuals purchasing policies
  - ◆ Socio-demographic characteristics
  - ◆ Motivations for purchase
  - ◆ Reasons why individuals do not purchase the product
- ◆ The product evolution
  - ◆ Current design
  - ◆ How policies work
  - ◆ Claimant experience
- ◆ Challenges and opportunities facing the industry



# Key Background on Risk and Costs of LTC

- ◆ LTC services are designed to help individuals perform basic living activities such as bathing, dressing, toileting, transferring and others, when they can no longer do so because of functional or cognitive limitations.
- ◆ LTC services are delivered in a variety of settings including nursing homes, assisted living facilities, and home care settings.
  - The majority of people who require LTC services receive them from family members.
- ◆ There is a 67% chance that an individual will need LTC for some period in their lifetime (Kemper et al, 2005-2006)
  - There is an 80% chance that care will be needed for less than 2 years
- ◆ LTC Services are costly. Annual costs by service settings can total:

– Nursing home	\$79,000
– Assisted Living	\$39,500
– Home Care	\$30,000

(Mature Market Cost of Care Survey 2010)



# General Background on Financing

- ◆ In 2009 spending on long-term services and supports totaled \$203 billion – 10% of personal health care spending. (National Health Policy Form, 2011)
- ◆ The largest public payer of LTC is Medicaid, which pays primarily for nursing home care after individuals have spent down most of their assets paying for care.
- ◆ Medicare pays for a limited amount of LTC, but only when there is a skilled need present, which is not often for most people who require services.
- ◆ Private insurance currently pays for <10% of the nation's LTC bill
- ◆ The largest single payer of LTC is elders and their families.
- ◆ LTC represents the single largest financial risk faced by the elderly and their families
  - ◆ One-in-five individuals will require more than 2 years of care, which can cost between \$30,000 (HHC) and \$79,000 (nursing home care) per year.

# Current LTC Insurance Industry Parameters (1)

## ◆ Individual market

- Between 5.0 and 6.0 million policies in force.
- Total premium of over \$8 billion.
- Roughly two dozen companies still active in market
- Annual sales growth rate between 2004 and 2009 is -8%.
- Between 2009 and 2010 growth was positive at 15%

## ◆ Group Market

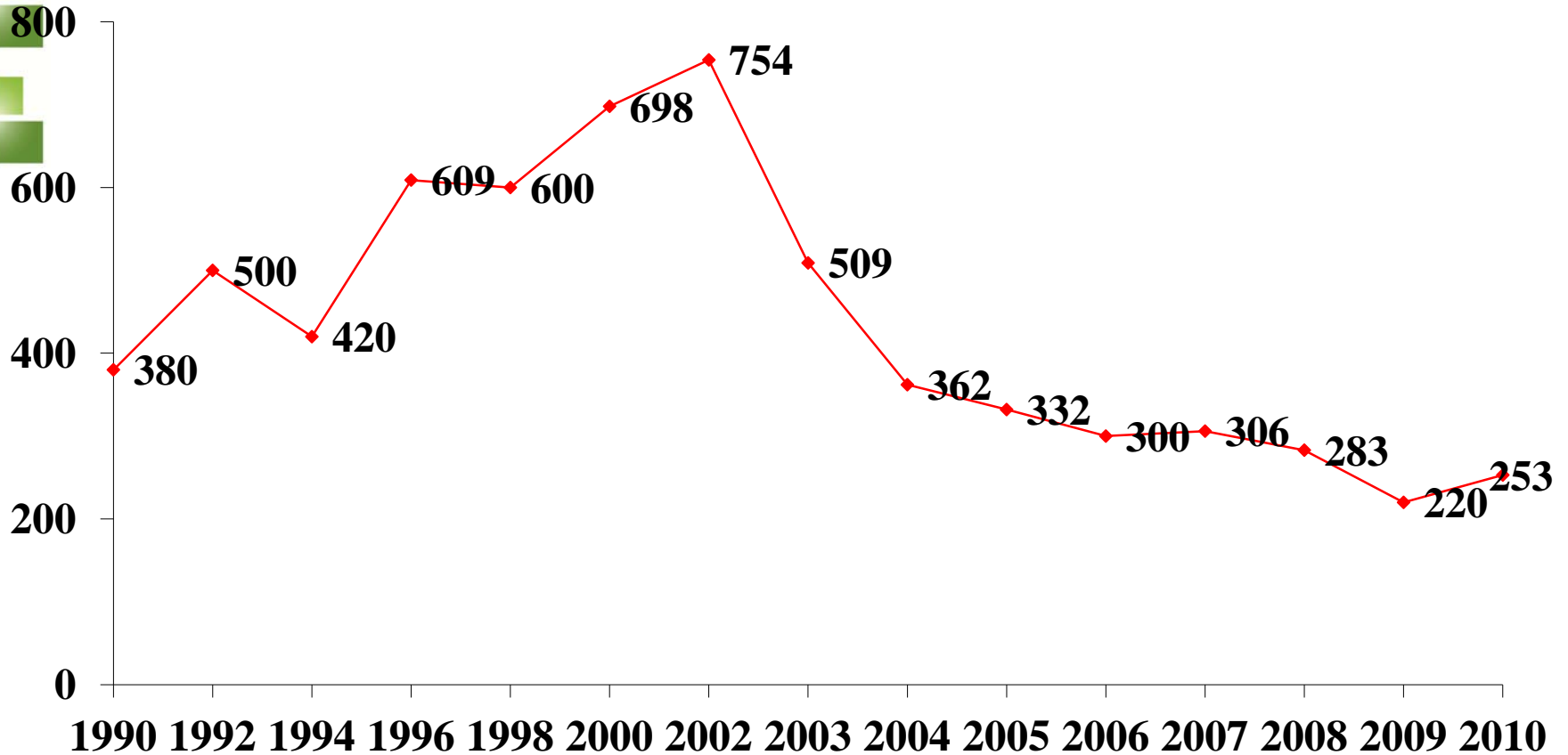
- Between 2.2 and 2.6 million certificates in force.
- Total premium of greater than \$2.0 billion.
- Compound annual sales growth rate between 2005 and 2010 is +5%
- Slightly more than 11,000 employer groups sponsoring coverage
- Less than 10 insurers actively selling in the group market
- Average participation rates <10% and roughly 5%-7%.



# Current LTC Insurance Industry Parameters (2)

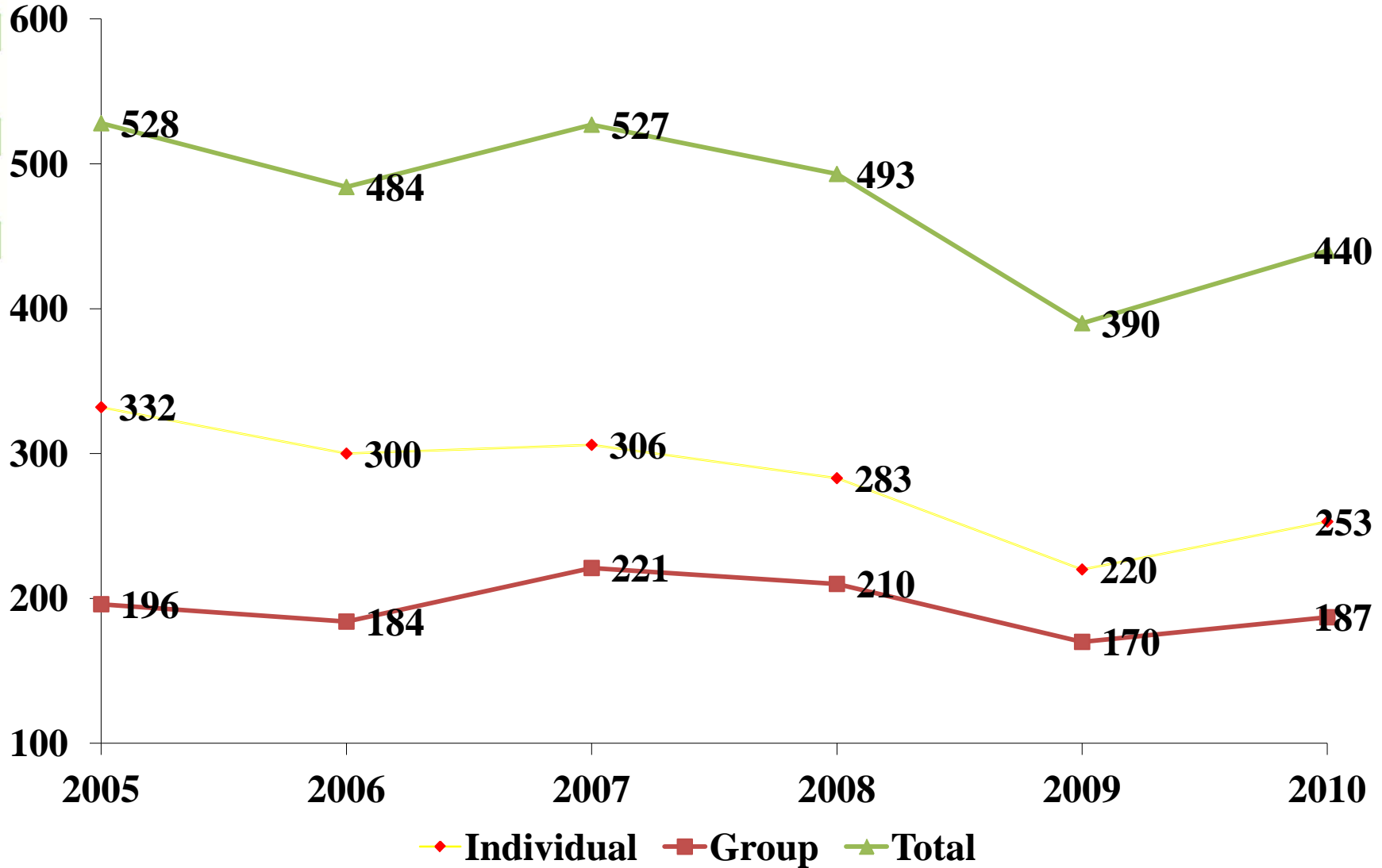
- ◆ Group market represents a growing share of sales:
  - In 2000: 75% Individual market      25% Group Market
  - In 2010: 58% Individual market      42% Group Market
- ◆ Concentration in both markets: Top 10 carriers in individual market and top 5 in group market: 90% of sales
- ◆ There have been a number of companies exit the market due to the difficult interest rate and sales environment as well as poor experience.
- ◆ Market penetration less than 10% of population

# Annual Sales of Individual LTC Insurance Policies 1990-2010 (thousands)



Note: LifePlans analysis based on AHIP, LIMRA and LifePlans sales surveys, 2010.

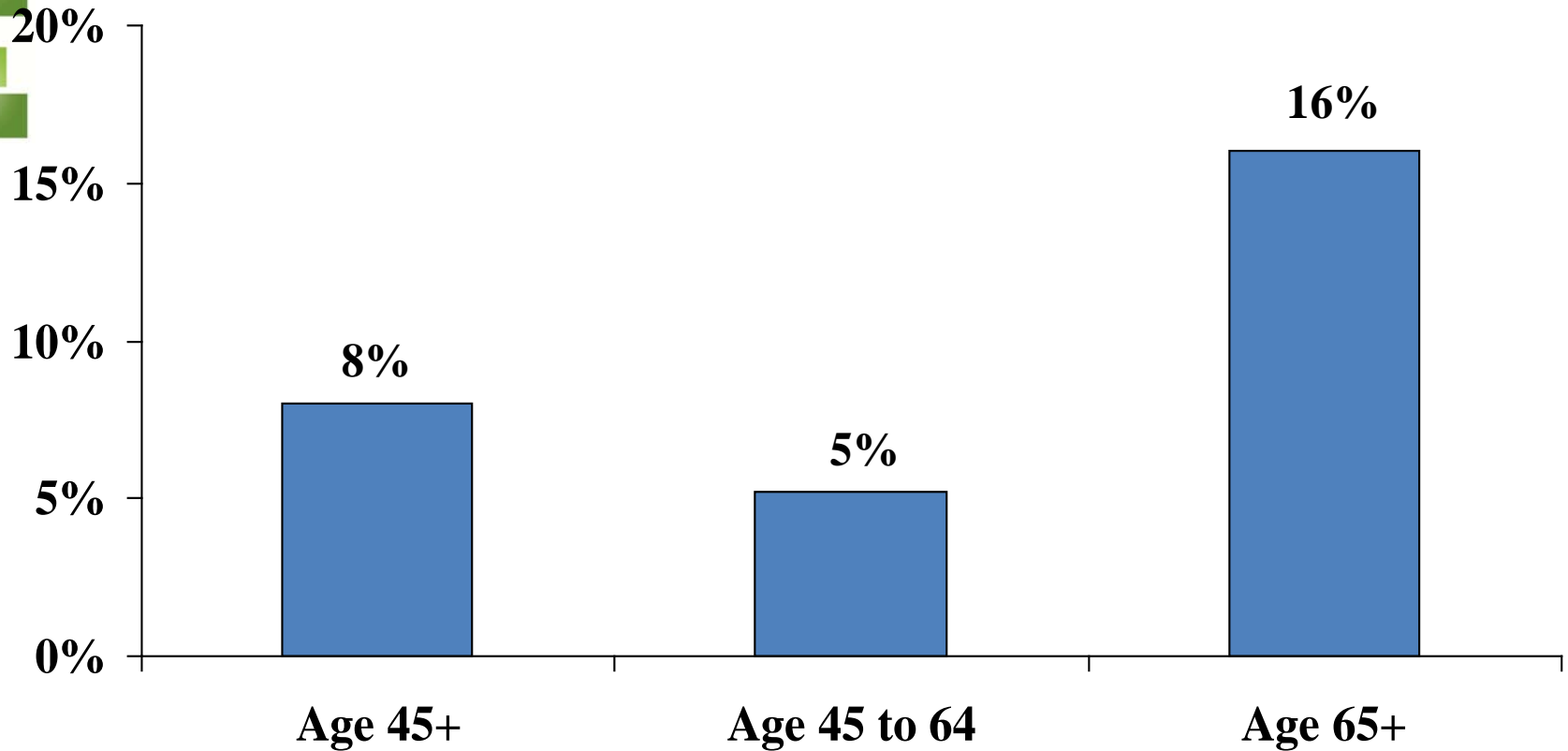
# Annual Sales of Individual and Group LTC Insurance Policies 2005-2010 (thousands)



Note: Estimates based on AHIP, LIMRA and LifePlans sales data and analysis.



# Private Long-Term Care Insurance Penetration of Population with Incomes over \$20,000



Source: LTC Financing Strategy Group, 2008



## Features of Current LTC Insurance Products

- ◆ Began as nursing home insurance in 1980s but now reimburses the costs of care in many settings (90% have comprehensive coverage):
  - Institutional
    - Nursing home
    - Assisted Living
  - Home and community-based care
- ◆ Access to a bank of benefits that can be used only to reimburse the costs of services once an individual has 2 or more limitations in Activities of Daily Living (ADLs) expected to last at least 90 days, or is cognitively impaired and requires ongoing supervision.
- ◆ Inflation protection features (92%)
- ◆ Care management provided to help at claim time.
- ◆ Availability of lifetime coverage (average = 4.8 yrs.)
- ◆ Policies are priced more appropriately to cover actuarial lifetime risk.
- ◆ Average premiums:
  - Individual Market: about \$189 per month (average age 59)
  - Group Market: about \$ 57 per month (average age 46)

# Summary of Characteristics of Policies

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

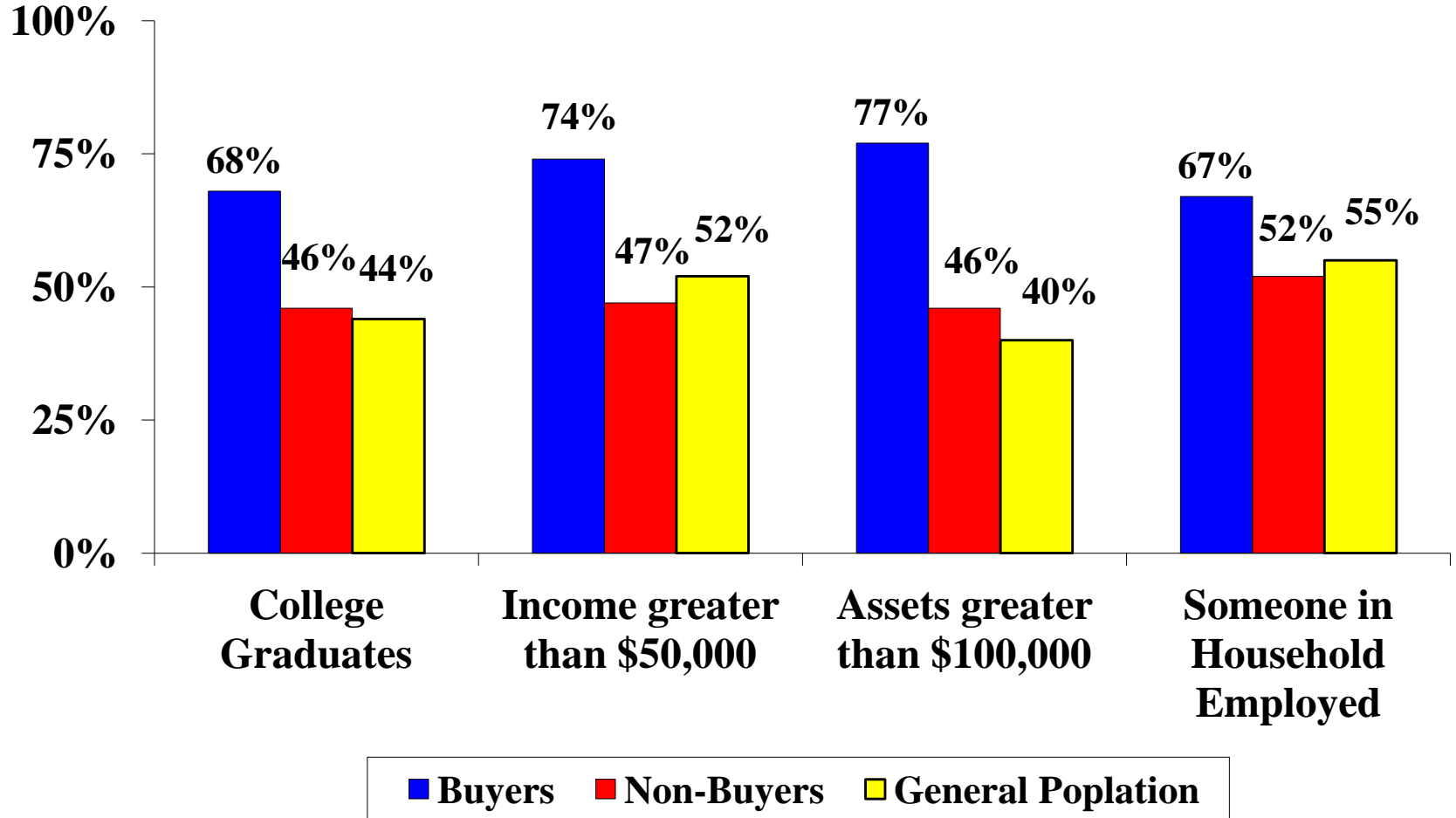
Source: AHIP, 2011



# Target market

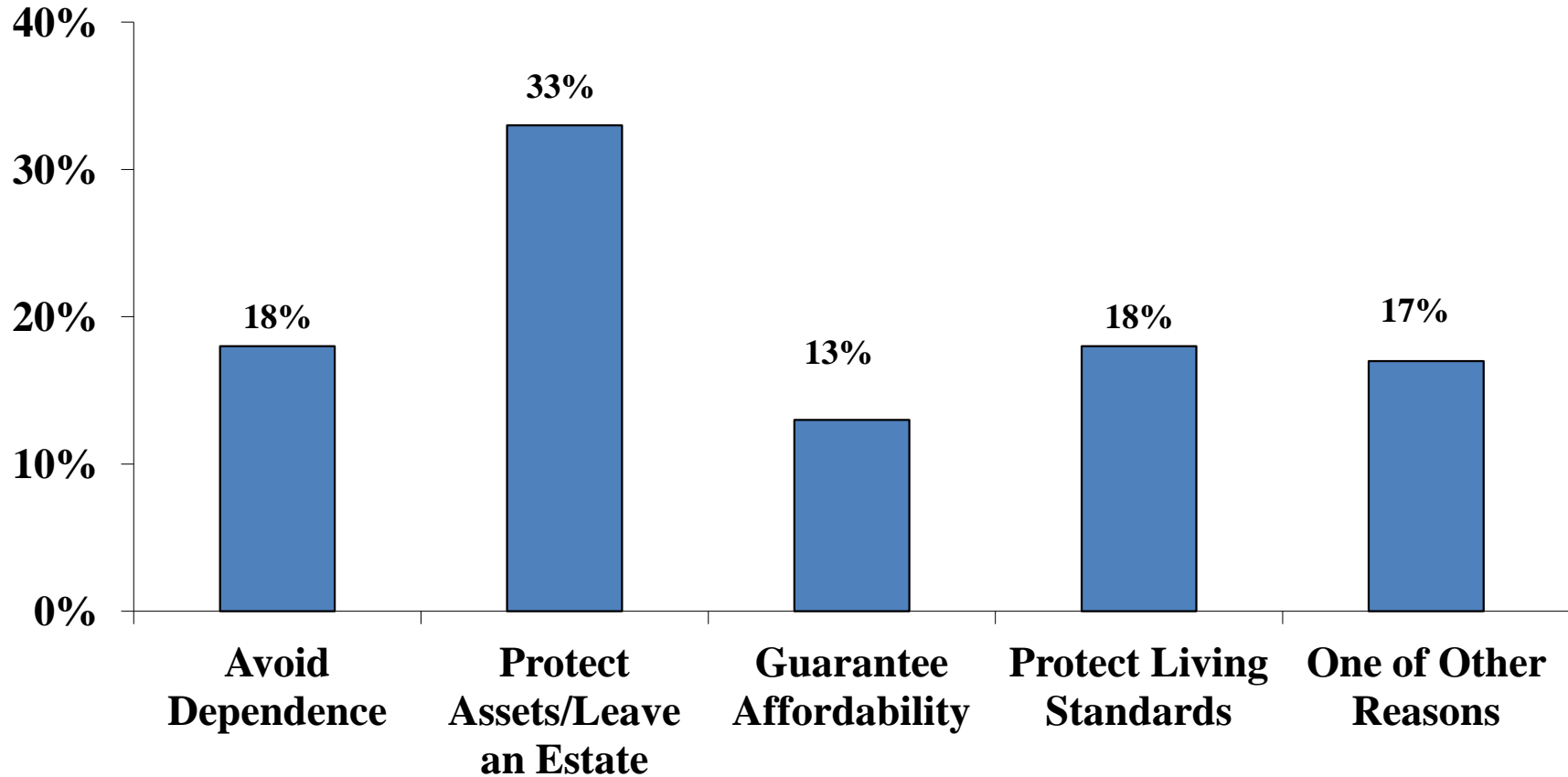
- ◆ Middle to upper income who would not immediately qualify for public programs.
  - Somewhere between 25% and 35% of elders
- ◆ Younger adults who view LTC insurance as an integral part of retirement planning.
  - Somewhere between 55% to 70% of age 40+
- ◆ Those who may have few available informal supports or who worry about not having them at the time they may need LTC.

# Socio-Demographic Differences between Buyers, Non-Buyers and General Population



Average age=59 years; Average income= \$82,000; Average liquid Assets = \$142,000

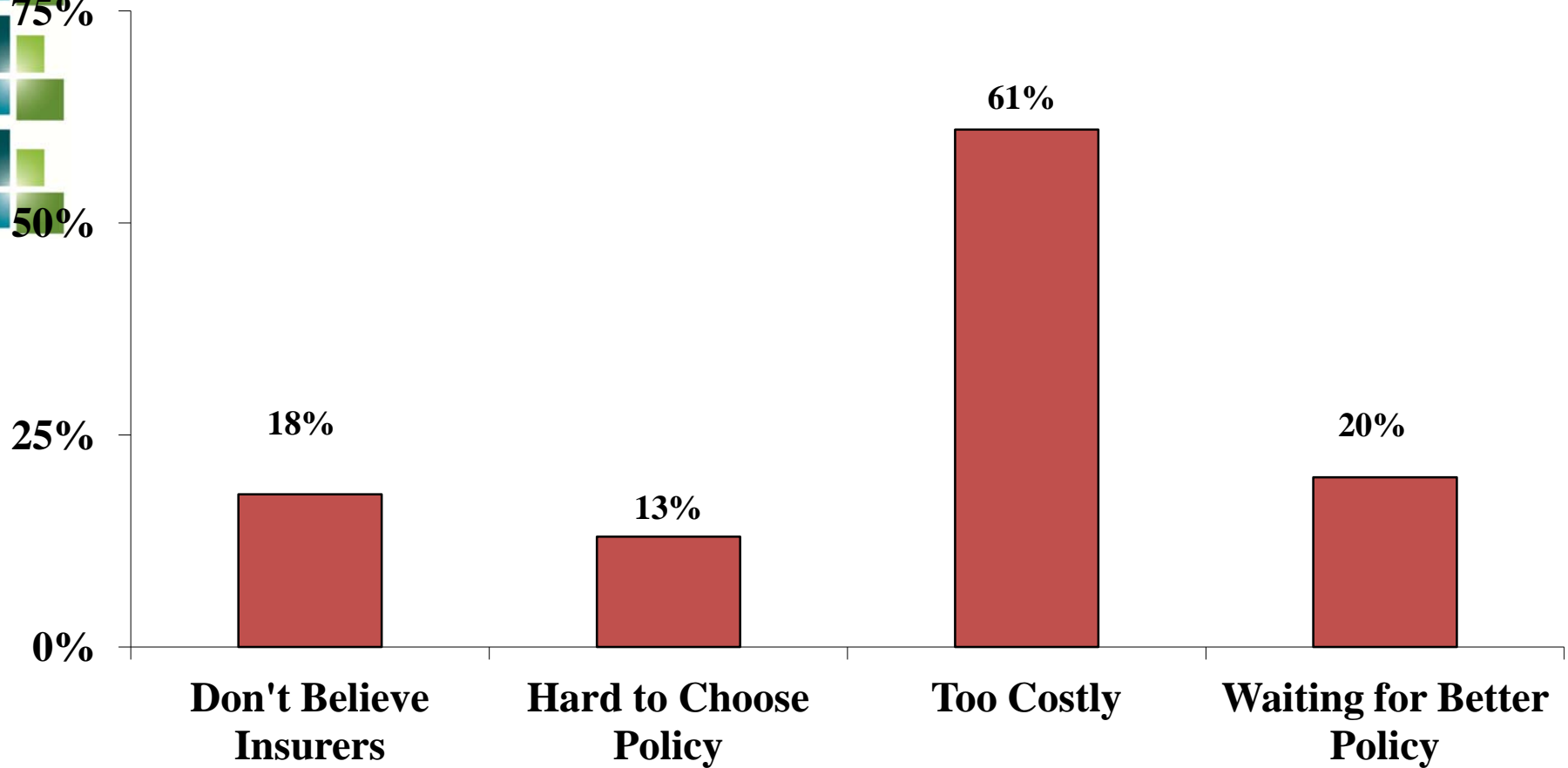
# Most Important Reason for Individual LTC Insurance Purchase (2010 Buyers)





*“We don’t want to be a burden to you, sweetheart, but who else are we going to be a burden to?”*

# Most Cited Very Important Reason for Individual Not Buying Insurance (2010)







# Claims Payment Practice

- ◆ More than \$30 billion paid in claims and now >\$3 billion per year
- ◆ Latest 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 have no disagreement with their company at claim time (94%), and the majority (77%) of do not find it difficult to file a claim (77%) .



# Challenges in the Market

## ◆ Supply side issues

- Number of companies did not price or risk manage their policies correctly and therefore had to exit the market and implement rate increases
  - Lower than anticipated voluntary lapse rates
  - Lower interest rates hence earnings on reserves are low
  - High capital requirements
  - Poor risk management on underwriting and claims side
- Hard to grow sales and meet pricing requirements

## ◆ Demand Issues

- Perceived value gap: Costs are perceived as high relative to value
- Confusion about public coverage
- People underestimate their risk, overestimate premium costs and hence don't plan
- Concern about reliability in the context of rate increases
- Public Program confusion & “crowd-out” effect



# Opportunities for Growth

- ◆ Continued public policy support
  - Tax incentives
  - Partnership programs
  - Awareness campaigns (Own Your Future)
- ◆ Growth in combination products (e.g. LTC-life LTC-annuity, LTC-disability)
- ◆ CLASS Program should have a positive impact on growth in the market:
  - Investments in consumer education will assist in marketing of private LTC insurance
  - Program provides limited coverage so opportunities for carriers to sell with or against CLASS program
- ◆ The magnitude of the problem is such that both the public and private sector roles need to be expanded with clear roles for each.
  - Remains greatest catastrophic health-related risk
  - Longevity means more people will face risk
  - Self-funding is inefficient
  - Greater awareness of need