



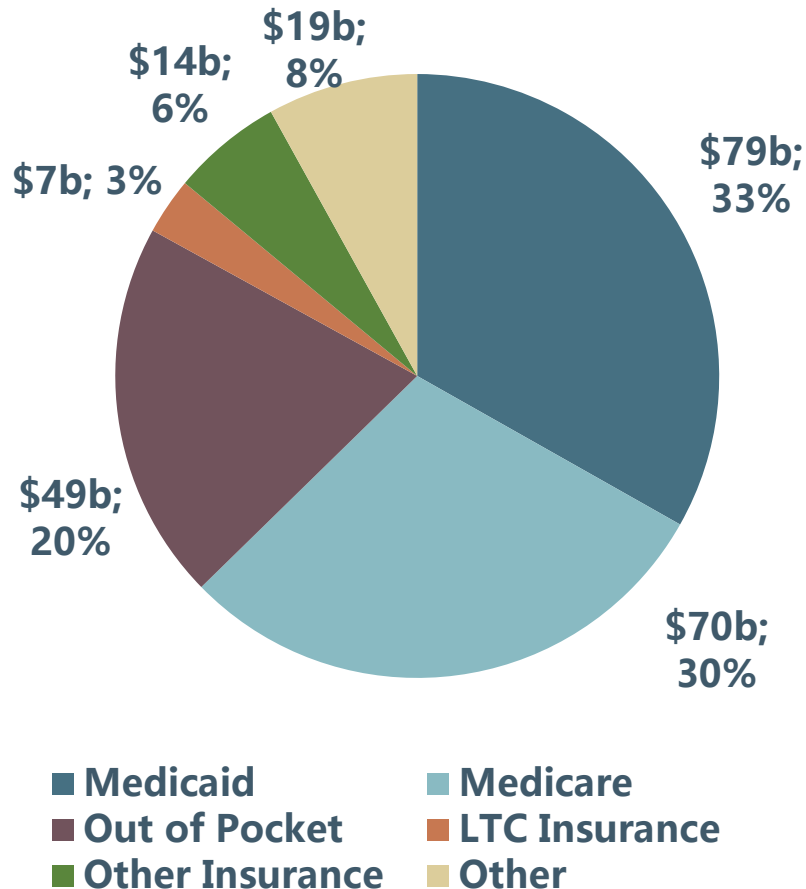
# State of the Long-term Care Insurance Market

## Shift to a New Generation of Products

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# Funding of US LTC Expenses



- Spending on LTC was \$239 billion in 2014
- 63% was funded by two social programs:
  - Medicare: Limited post-acute care
  - Medicaid: Once assets are spent down
- 20% from direct out of pocket spending
  - Much includes asset spend-down
- Only 3% from private LTC insurance
  - 7 million insureds out of 86 million age 55+

Source: National Health Expenditure (NHE) Amounts by Type of Expenditure and Source of Funds

# First generation of LTCI is struggling

- Low interest rates
- Low lapse rates
- Increasing longevity
- Evolving care delivery
- Regulatory uncertainty
- Carrier exits
- Distribution contraction
- Wary consumers
- 8% became 3%
- 5% became 1%
- 5 to 10 year increase
- Emergence of ALFs
- Political not actuarial
- 100+ to about 10
- 45k+ became ~2,000
- Smart buy to risky buy

***1 million policies sold in 2001 vs. <100k in 2016***

# Still a need

- Biggest fears about retirement<sup>1</sup>:
  - 11%: Will have too much debt
  - 18%: Won't be able to afford daily expenses
  - 23%: Exhaust savings
  - 28%: High medical (LTC) expenses
- Most are aware of Medicaid as a safety net, but worry about losing control of care and lifestyle

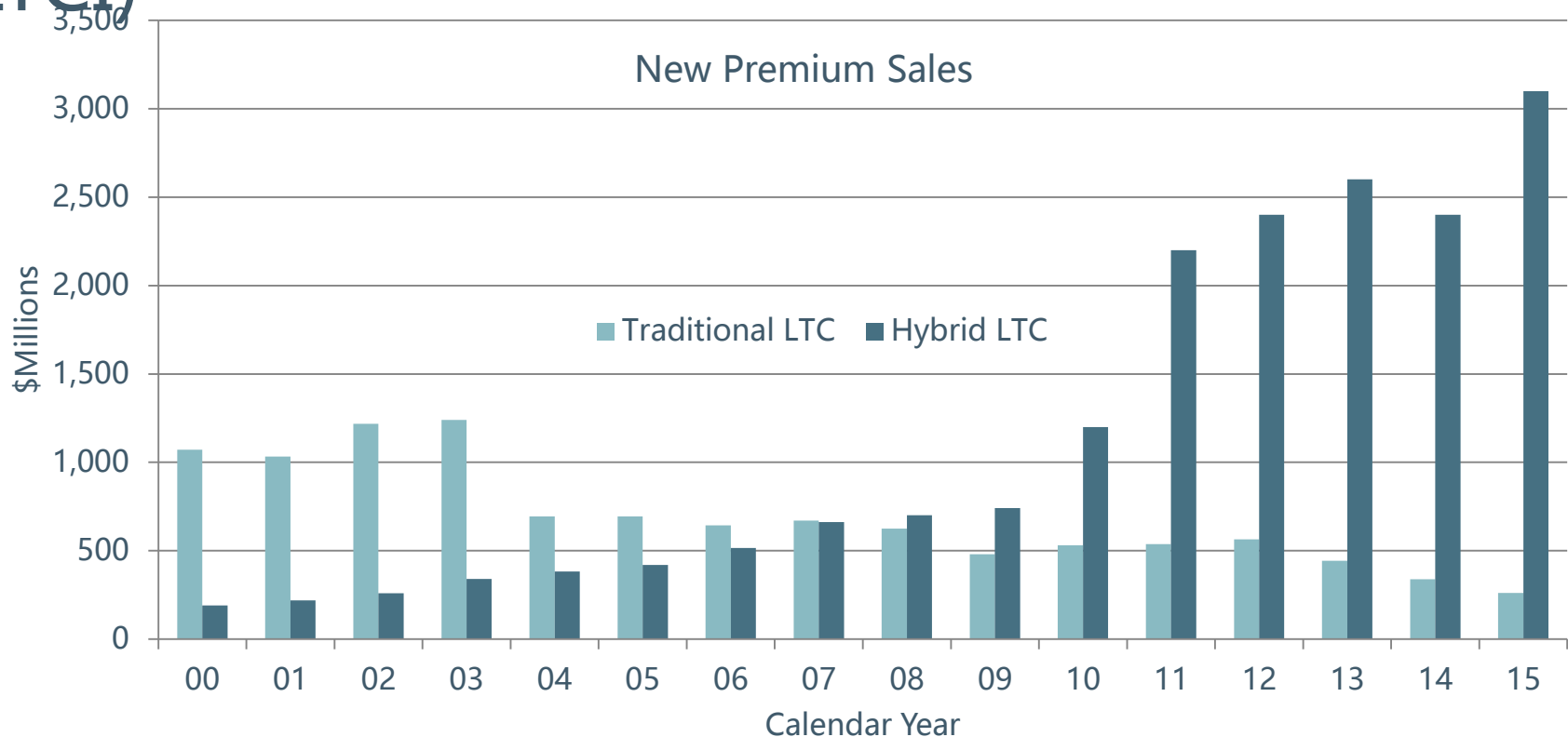
<sup>1</sup>Source: Bankrate.com Money Pulse Survey, Feb. 18, 2015

# Still a need

- Private financing of LTC is strongly preferred<sup>1</sup>
  - 59% agree that individuals should be responsible
  - 66% agree that owning private LTC insurance would give them peace of mind
  - 51% don't trust the government to run an LTC insurance plan
- LTCI coverage is still sought by consumers
  - Agents and financial advisors steer towards other options

<sup>1</sup>Source: 2014 Survey of Long-Term Care Awareness and Planning, U.S. Dept. of HHS

# Shift to hybrid products (2<sup>nd</sup> Generation LTCI)



- Premiums for hybrid plans have overtaken traditional plans
  - Important to note that most hybrid premiums are single premiums

Sources: 2001-2014 *Broker World Surveys* and LIMRA's *Individual Long-term Care and Life Combo Products Annual Reviews*

# Hybrid product sales

Hybrid products comprised

**15%** of new life insurance premium issued in **2015**  
(up from 12% in 2014)

**200,000+ policies**

and **\$3.1 bn** issued in

**2015**

Compared to **104,000** policies  
and **\$261m** in the stand-alone  
LTC market

Carriers are  
**entering the  
hybrid LTC  
market** as opposed  
to continued exits in  
the stand-alone LTC  
market

Sources: LIMRA's 2015 Individual LTC Sales and 2015 Life Combo Sales Surveys



# Looking forward

- Expect increased volume of hybrid sales via:
- Target market expansion
  - Historical focus on affluent market
  - Companies are expanding to middle market via worksite and direct marketing channels
- Distribution and marketing shift
  - With some exception, hybrid sales are currently add-on options presented at the sale of life and annuity products
  - Specialty distribution, focused on hybrids as a primary LTC financing solution, will likely emerge and greatly increase sales volumes



# Looking forward

- NAIC LTC Innovation Subgroup focused on three tasks:
  1. Advocate for federal tax policy changes to encourage private LTC financing
  2. Increase awareness of hybrids and other existing alternative products
  3. New section of the LTC model regulation to enable Savings Based LTC products
- Third Generation of LTCI products is likely to emerge

# Alternative products

## Using existing insurance products to fund LTC in new ways

- Care Annuity (UK version of LTC insurance)
  - Underwritten SPIA issued to newly disabled persons
  - Health conditions result in higher monthly benefit payments than traditional SPIAs
  - Removes longevity risk for the annuitant
  - Large segment of 80+ year-olds have enough assets to fund LTC in this manner
- Life settlements
  - Assign death benefit from existing life policy
  - Greater value than cash value; can annuitize for life

# Savings Based LTCI

- Would require modifications to NAIC LTC Models
- Shifts investment, lapse and future uncertainty risks to consumer
- Resembles universal life, but with LTC as the insured event:
  - Cash / account values
  - Flexible premiums
  - Annual cost of insurance charges
  - Investment income credits
  - Modular coverage
  - Payout options at LTC event (e.g., annuitize)



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