

Long Term Care Insurance: Market Trends

Prepared for MARC Life 4th Disability
Income and Long-Term Care Customer
Conference

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Purpose of Presentation

- Present information on
 - market development and product trends including new data from the 2005 Buyer/Non-Buyer Study
 - key points regarding trends in consumer profiles and demand.
 - trends in underwriting and claims management.

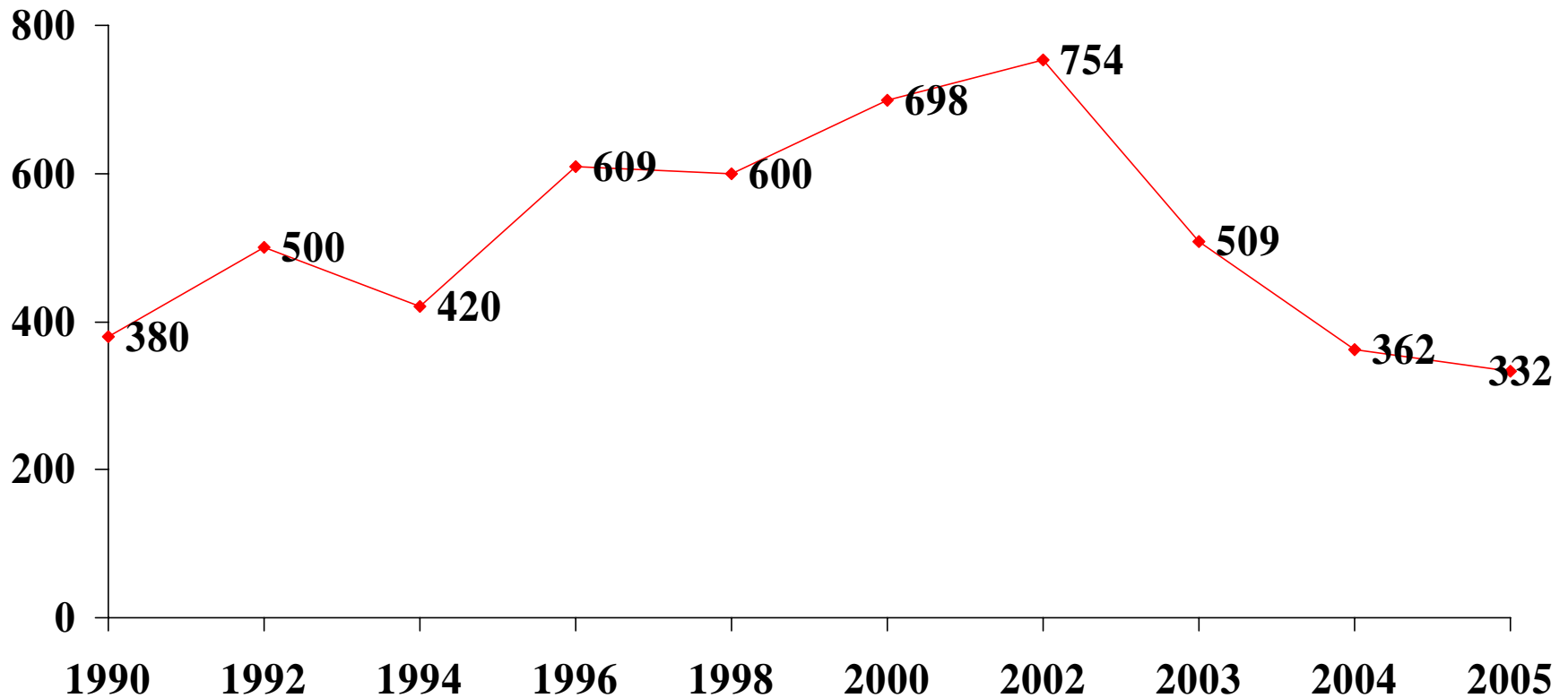
What are the key descriptors of the LTC market today?

- Consolidation
- Rate increase activity
- Negative to flat sales growth in the individual market
- Modest growth in the group market
- Regulatory changes leading to pricing pressure
- Supportive public policy: Partnerships

Industry Parameters

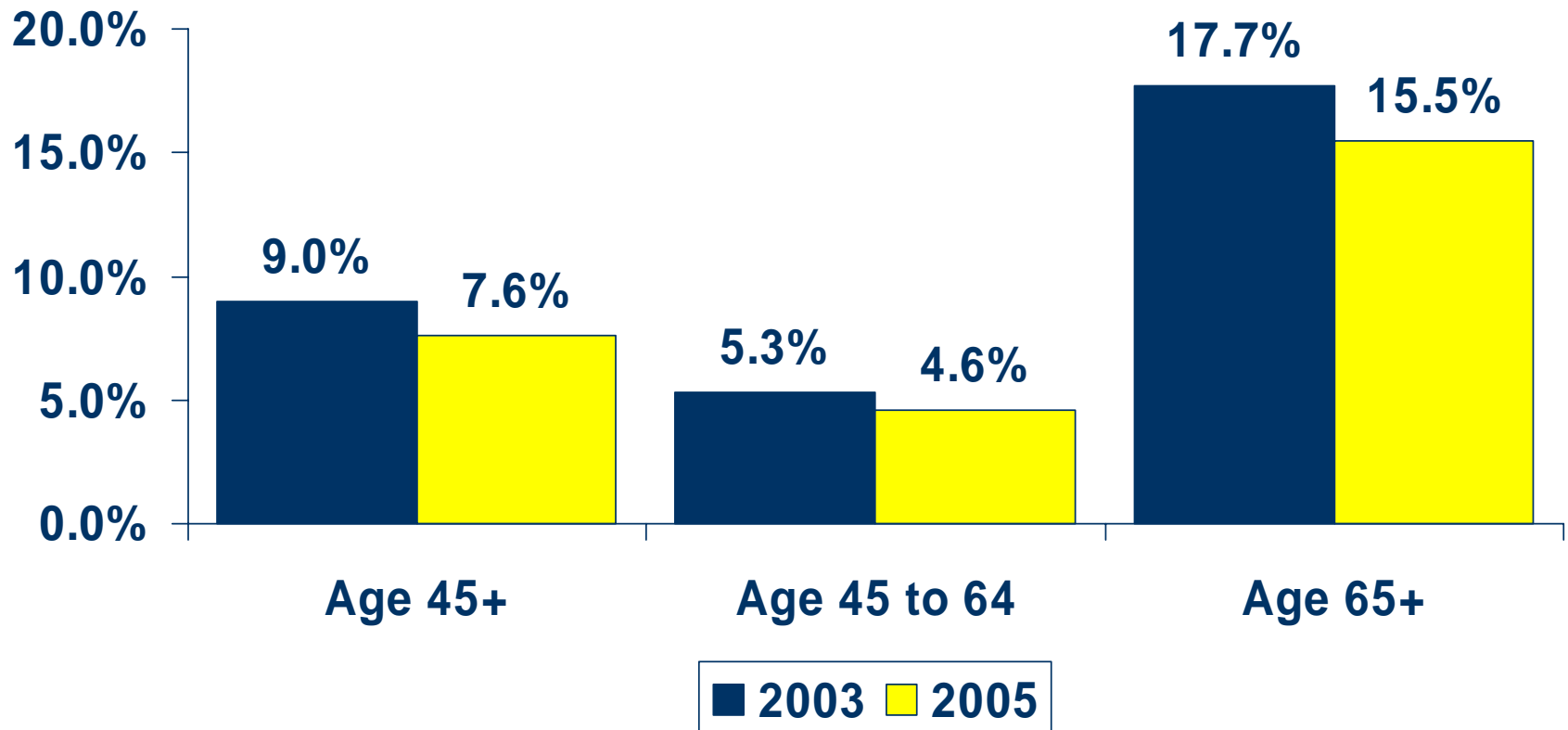
- Individual market
 - Between 4.0 and 5.0 million policies in force.
 - Total premium of \$7.3 billion.
 - Compound annual sales growth rate between 2000 and 2005 of -8%.
- Group Market
 - Between 1.5 and 2.0 million certificates in force.
 - Total premium of \$1.0 billion.
 - Compound annual sales growth rate between 2000 and 2005 of 19%.

Annual Sales of Individual LTC Insurance Policies (1990-2005)



Note: Based on AHIP and LIMRA

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



Source: LTC Strategy Group, 2005

Market Trends among Insurers

- Consolidation
 - Top carriers purchasing blocks of business.
- A number of insurers exiting from the market.
 - Many of top ten a few years ago are now out of the business or have seriously diminished their activity.
- A number of carriers are requesting rate increases and new products with higher prices.
 - Between 15% and 50% rate increases have been requested on some blocks of business;
 - New products are priced between 10% and 15% higher than just a few years ago.

Exit Drivers

- Financial performance of the business has been poor.
- Competition has squeezed out and pushed back emergence of profits.
- Few companies have met sales growth targets.
- Greater imbalance in the risk/reward trade-off.
- Many companies still prefer to “do what they know” when there is greater uncertainty in the economy.
- Growing skittishness among reinsurers and their requirements for providing coverage.
- Regulatory requirements are challenging
- Ratings Agencies and financial analysts have soured on LTC.

Activity Over the last Five Years

- 3 - 6 carriers exiting the market per year
- 1 - 2 carriers entering the market per year
- Roughly 20 blocks of business acquired
- 50+ closed blocks of business available

2004 Dimensions of Available Closed Blocks

- 1.4 million covered lives
- \$1.8 billion annual earned premium
- \$8.5 billion statutory policy reserves
- \$1.8 billion statutory claim reserves

Rate Change Drivers (1)

- Lapse Rate assumptions
 - Ultimate lapse rates are in the 2% range where they might have been priced at 4%.
 - Price effect for a 55 year old with inflation protection can be 25% over life of policy;
 - They got the message: LTC insurance is not for current year risk but for future risk;
 - Those who purchase inflation protection are less likely to lapse policies;
- Asset Earnings rates have declined dramatically
 - Many companies priced at 7% earnings and in fact may be closer to 5.5% to 6.0%.
 - Price effect for a 55 year old with inflation protection can be 15% to 23% over the life of the policy.

Rate Change Drivers (2)

- Poorer than expected morbidity
 - Higher incidence than expected and in earlier durations;
 - Competition for sales led to inappropriate underwriting;
 - Competition led to additional risk classifications with little actuarial justifications;
 - Poor contract language gave latitude not accounted for in underlying pricing of policy;
 - No serious attention to risk management on the back-end with respect to intensity, duration and unit cost risk.
 - Reluctance to invest in care management due to questions about “savings”;
 - Concern about gate-keeping versus value added to insureds.

Impact of Price Changes

- Elasticity of demand:
 - What is the impact on demand of a change in price; that is, how sensitive is the demand for LTC insurance to the price of the insurance?
 - Scientific literature: best estimate of price elasticity of demand for health or LTC insurance is $-.75$ to -1.25 .
 - A 15% increase in price leads to a decline in demand of between 11% and 19%.
 - Example
 - 500,000 policies sold in Year 1
 - Price increases by 15%
 - Between 405,000 and 450,000 policies sold in Year 2

Regulatory Issues affecting Pricing

- Rate stabilization
 - Change in minimum loss-ratio test
 - More stringent premium evaluation
 - Contingent non-forfeiture
 - Greater consumer disclosure requirements
- More scrutiny for spousal discounts

New Regulatory Requirements for Assessing Premium Stability

Age	Premium	Net Val. Premium	Expenses	Difference
55 (no inflation)	\$578	\$567	\$53	(\$42)
55 (with inflation)	\$1477	\$1740	\$136	(\$399)
60 (no inflation)	\$780	\$729	\$72	(\$42)
60 (with inflation)	\$1777	\$1906	\$192	(\$321)

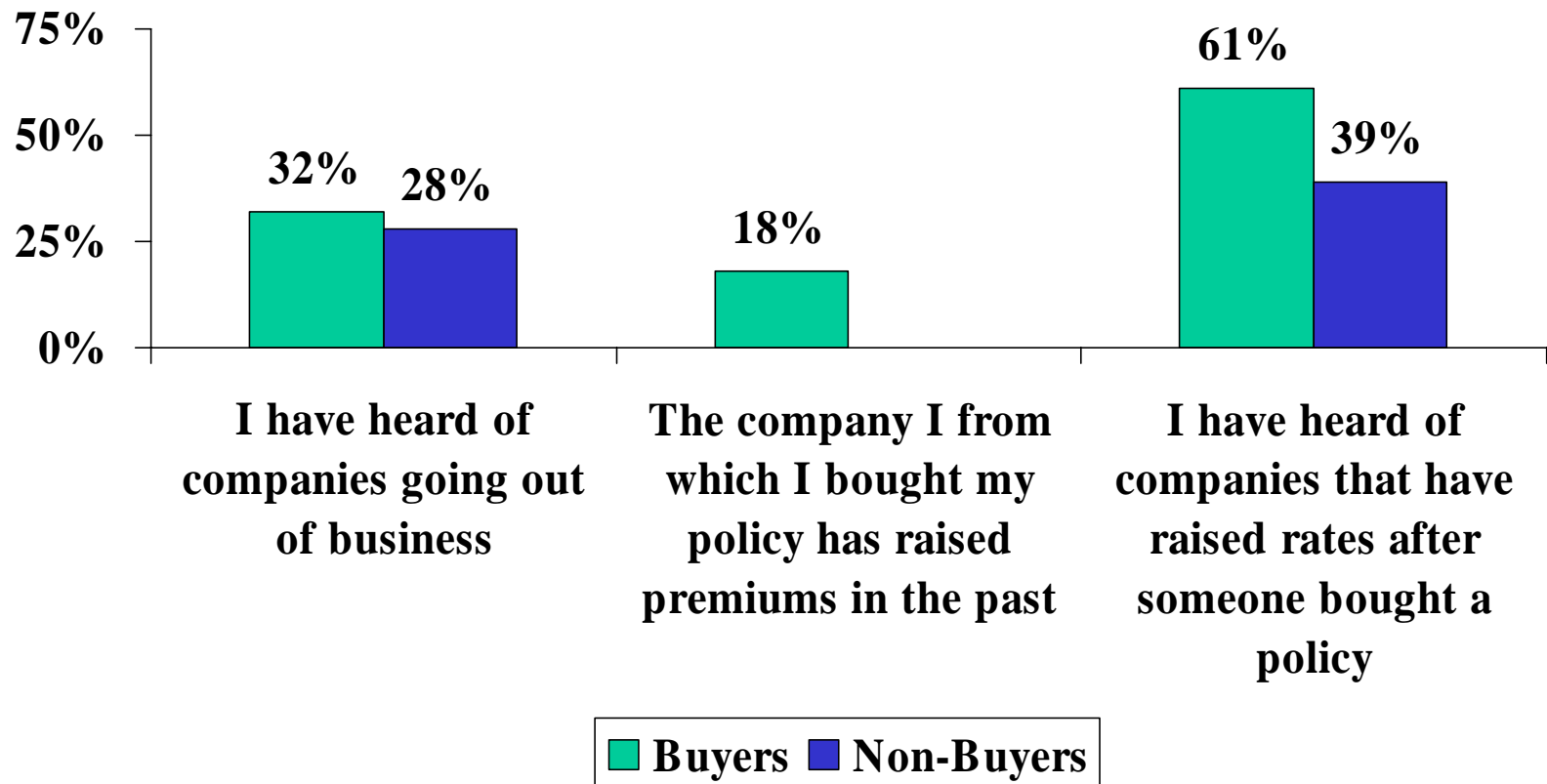
Potential Impact on Rates of Change

	Old Premium	New Premium	% Change in Premium
55 (no inflation)	\$578	\$624	8%
55 (with inflation)	\$1477	\$1915	30%
60 (no inflation)	\$780	\$803	3%
60 (with inflation)	\$1777	\$2098	18%

Expected Outcome of Market Trends for Insurers

- Somewhat more concentration of market among large committed insurers.
 - Greater commitment to the product;
 - More experience and willingness to experiment to improve risk management – underwriting and claims.
- More conservatism vis-à-vis pricing.
 - More likely to be rate stability;
 - Less likely to allow “marketing” to trump product pricing assumptions.
- Much healthier and more stable industry that bodes well for consumers.
- “Flight to Quality” as measured by ratings of company.

Knowledge among New Buyers and Non-Buyers of Industry Activity (2005)



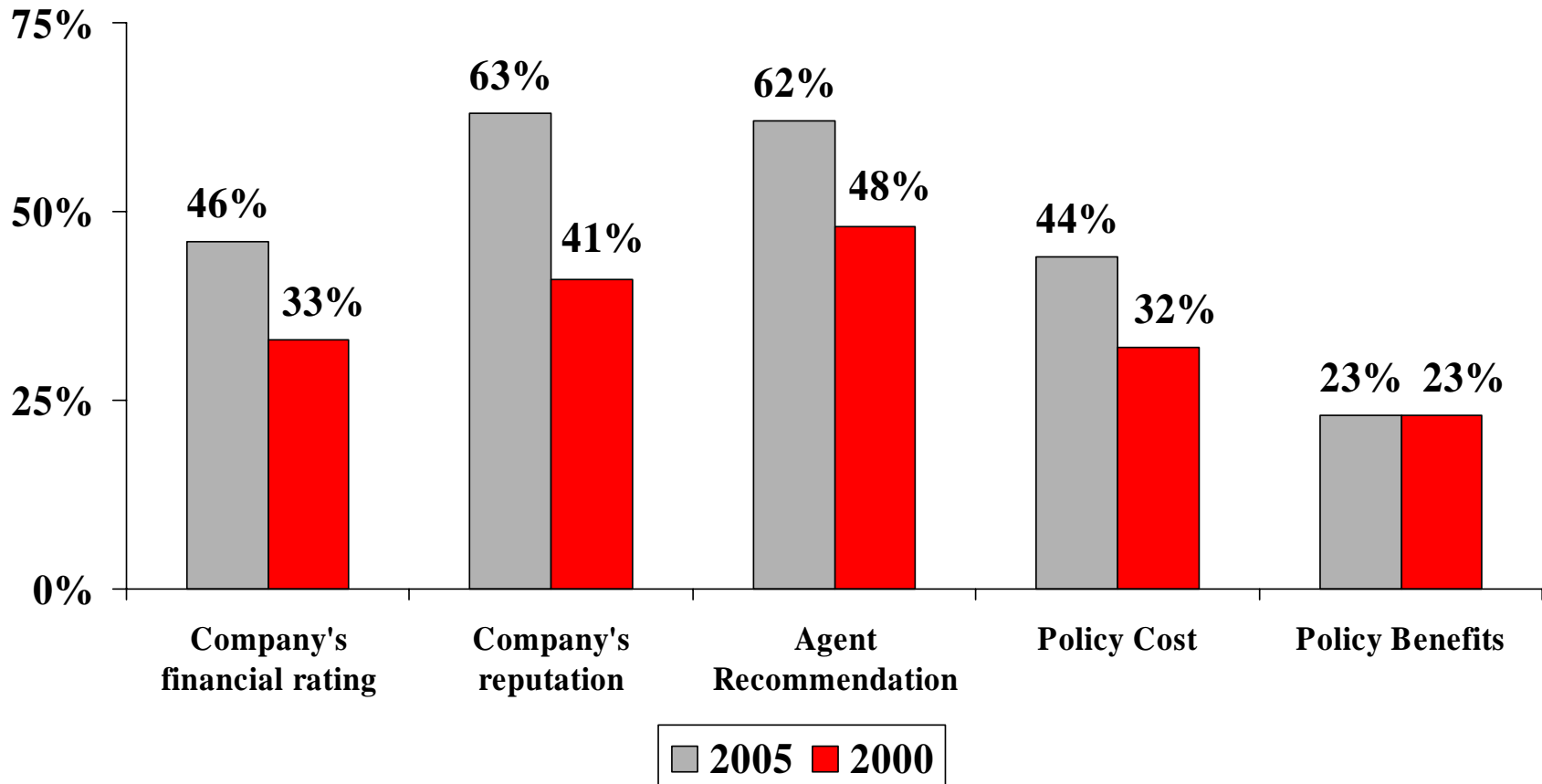
Market Trends among Consumers

- Continued demand for products that cover comprehensive range for services or to products less tied to service coverage definitions.
- Simple products:
 - bells and whistles can be “deafening” rather than symphonic!
- Focus on characteristics of the insurer and ability to provide value added services; product design features and price are less important.

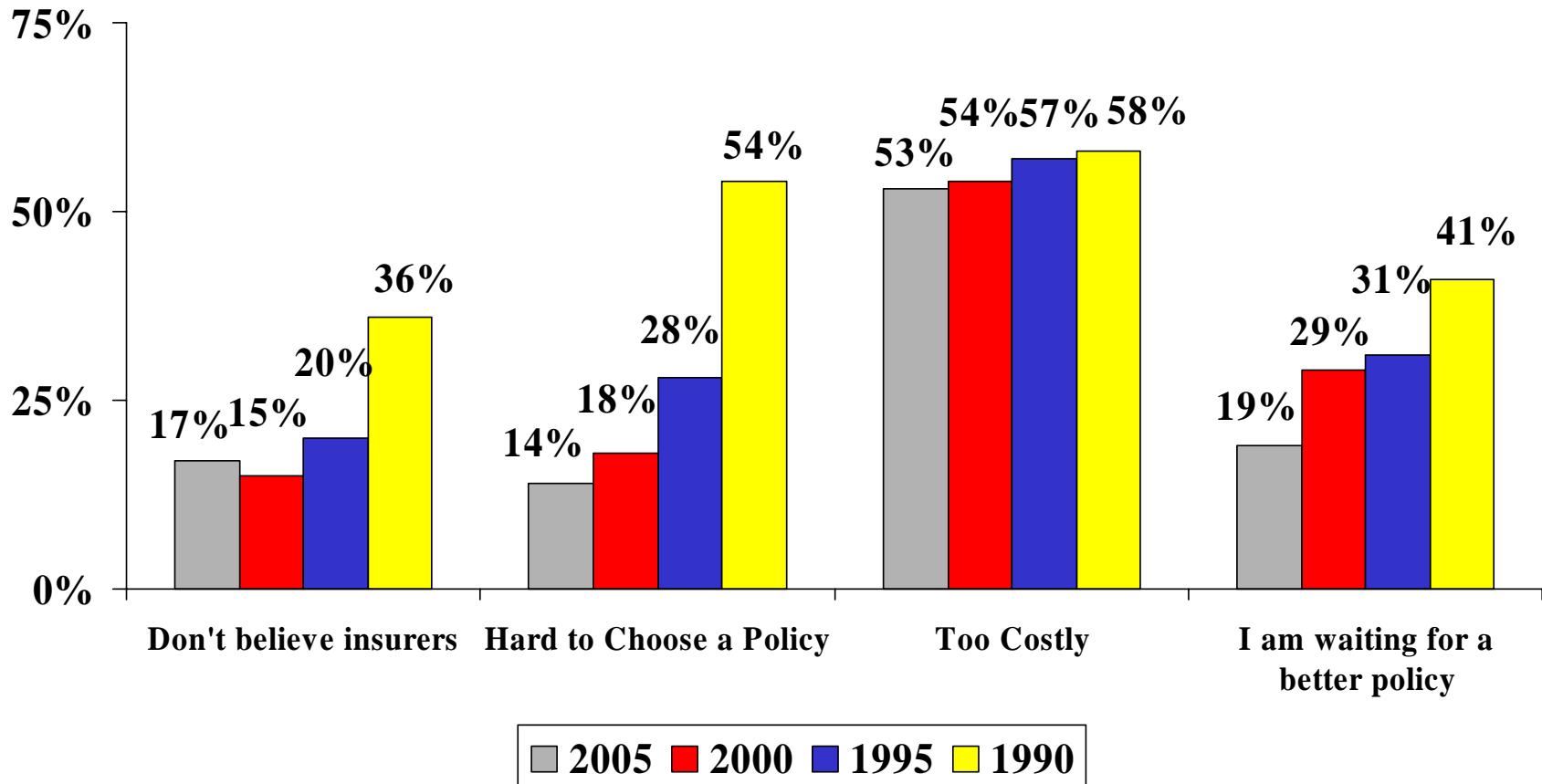
How products are changing

	2005	2000	1995	1990
Nursing Home Only	3%	14%	33%	63%
Comprehensive	90%	77%	61%	37%
Home Care Only	7%	9%	6%	-----
NH Daily Benefit	\$142	\$109	\$85	\$72
HHC Daily Benefit	\$135	\$106	\$78	\$36
Benefit Duration (years)	5.4	5.5	5.1	5.6
Elimination Period	80 days	65 days	59 days	20 days
Annual Premium	\$1,918	\$1,677	\$1,505	\$1,071

Factors Cited as Important to Purchase Decision (individual market)



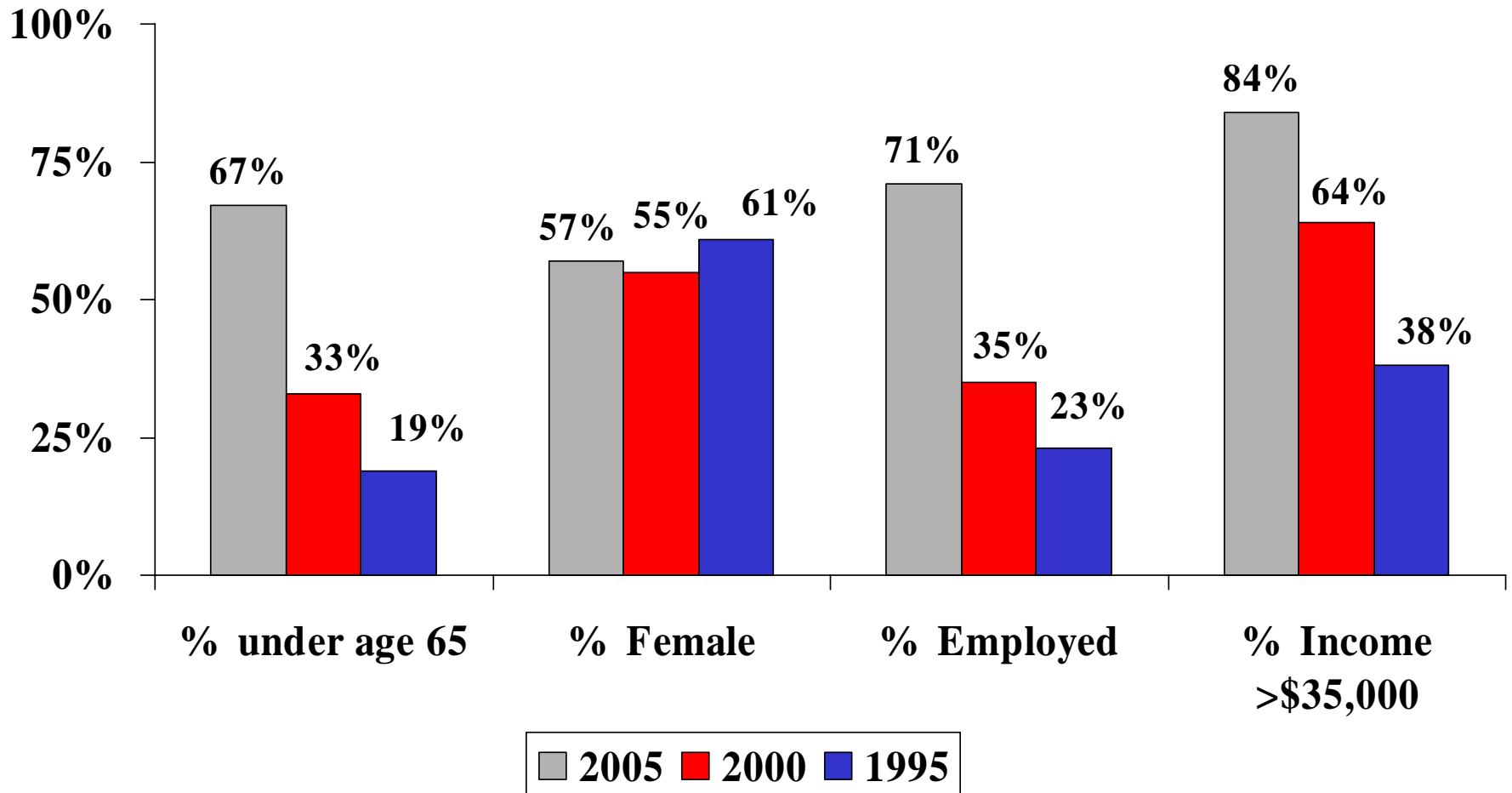
Factors Cited as Important to Non-Purchase Decision (individual market)



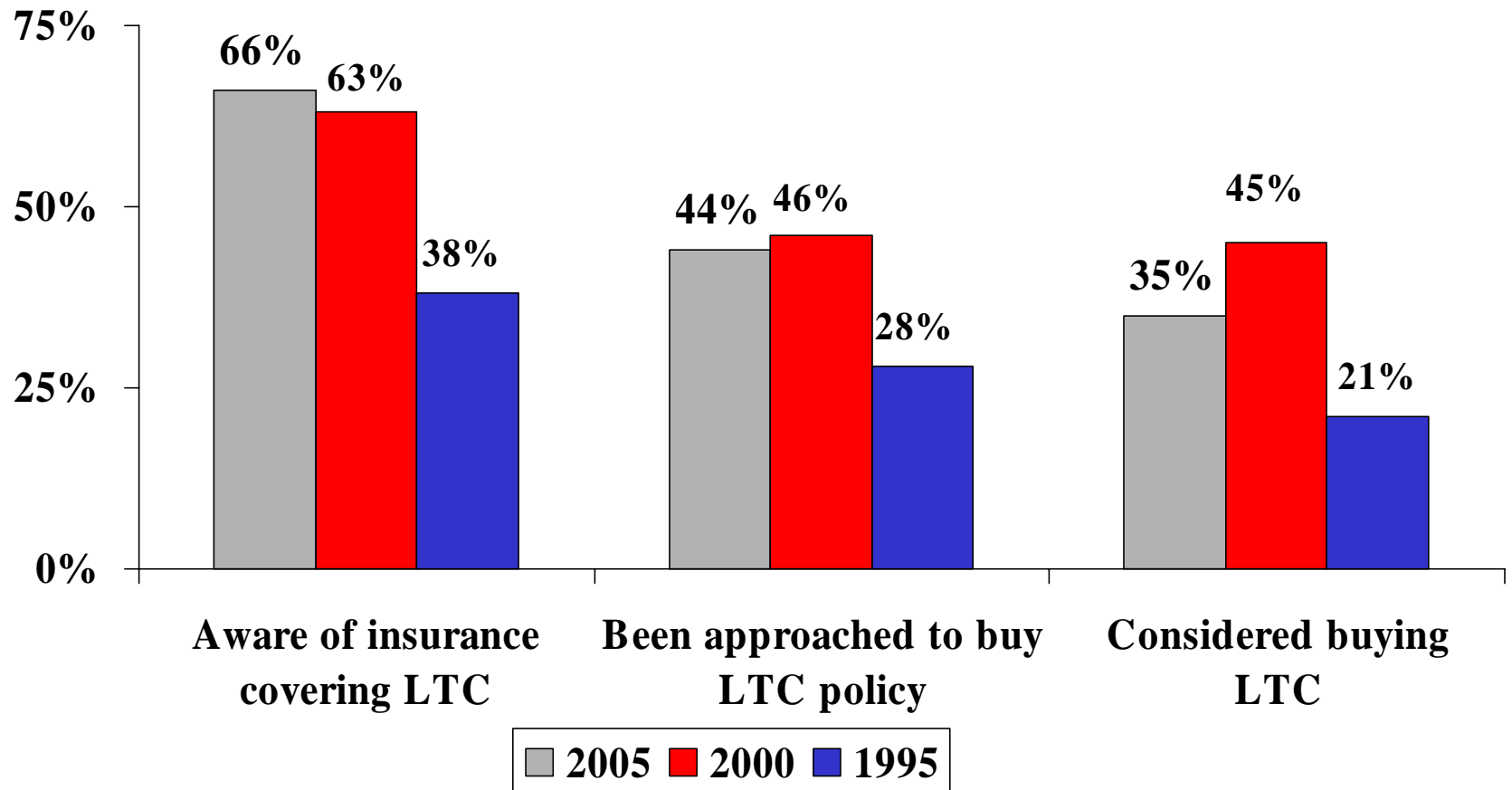
Profile of Consumer is Changing

- Consumers of long-term care insurance today are:
 - Younger
 - Wealthier
 - More knowledgeable
 - More demanding
 - More likely to have choices between employer sponsored- plans or individual policies.
 - Employer group and individual market overlap implications

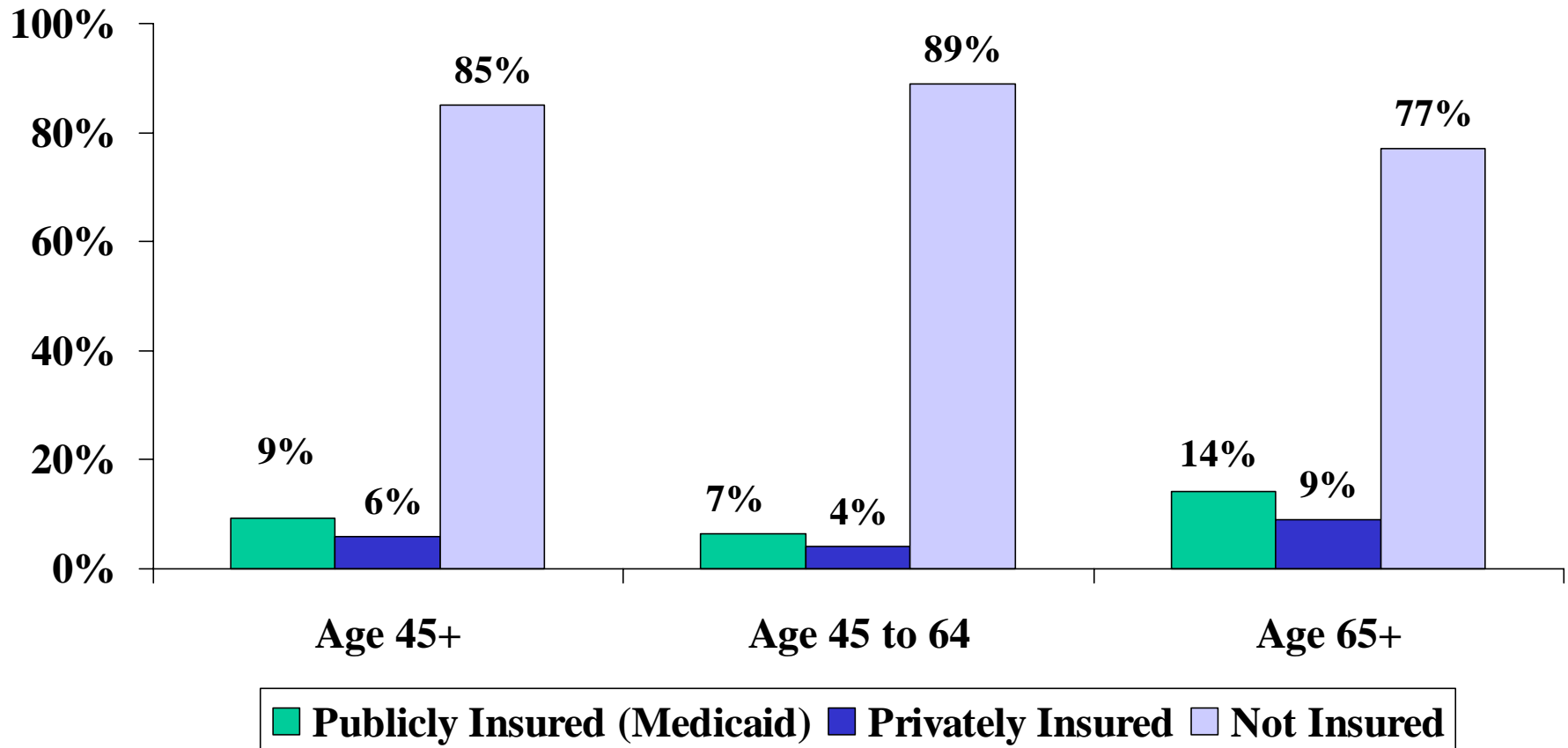
Characteristics of Buyers, 1995-2005



Consumer Awareness is Growing (general elders age 55 and over)



There remains a large untapped market opportunity



Source: LTC Financing Strategy Group, 2003

Trends in Risk Management

- Companies toughening up on underwriting requirements.
 - More requirements;
 - More extensive testing;
 - Look back period for certain diseases is increasing and greater auto-declines for certain conditions.
- Decline in the percentage of policies being issued as preferred.
- “Failing underwriting” is the reason growing in importance as the most prevalent for why an application does not become a paying policy – 33% in 1998 and 55% in 2002.
- Move toward more effective cognitive screens.
- Greater attention to claims-related activities.

Conclusion

- Many trends on the producer (insurer) side and consumer side are mutually reinforcing:
 - Better risk management will lead to rate stability
 - Simpler products reduce sales costs
 - New preventive care and adaptive technologies provide benefits to both consumers and insurers
- The demographics and public policy environment portend increasing demand at a time when current insurers have learned from prior mistakes and new entrants can learn from others' mistakes.