State of the Long Term Care Insurance Industry

KENTUCKY LEGISLATIVE RESEARCH COMMISSION

Dave Dillon, FSA, MAAA
Senior Vice President & Principal
Lewis & Ellis, Inc.

Background

LEVEL PREMIUM

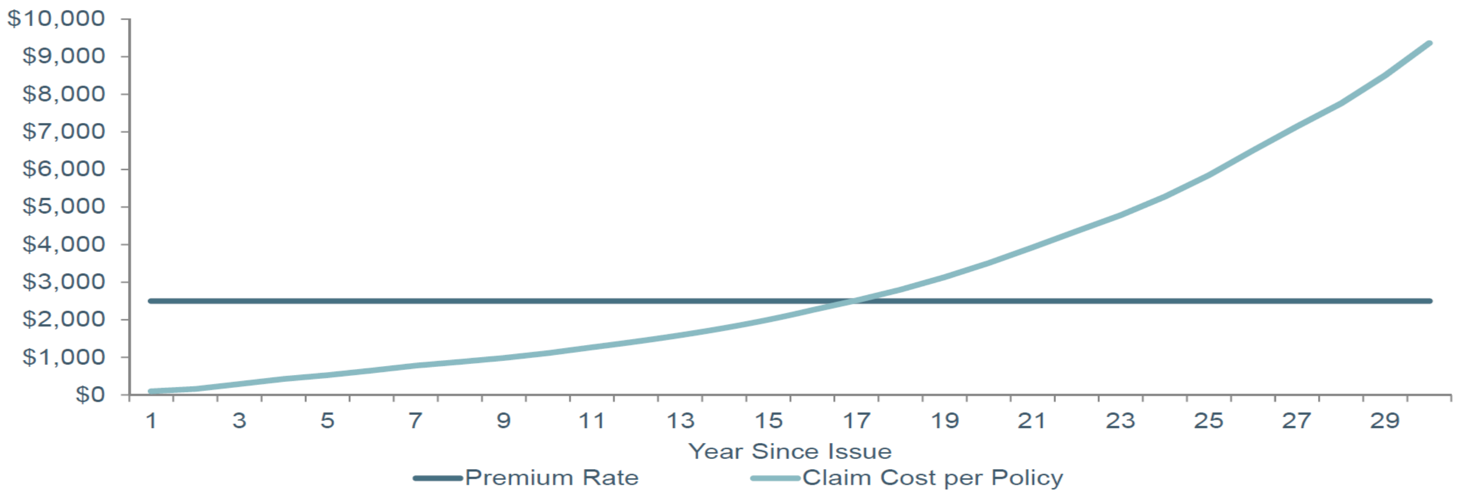
PRE-FUNDS INCREASING COST

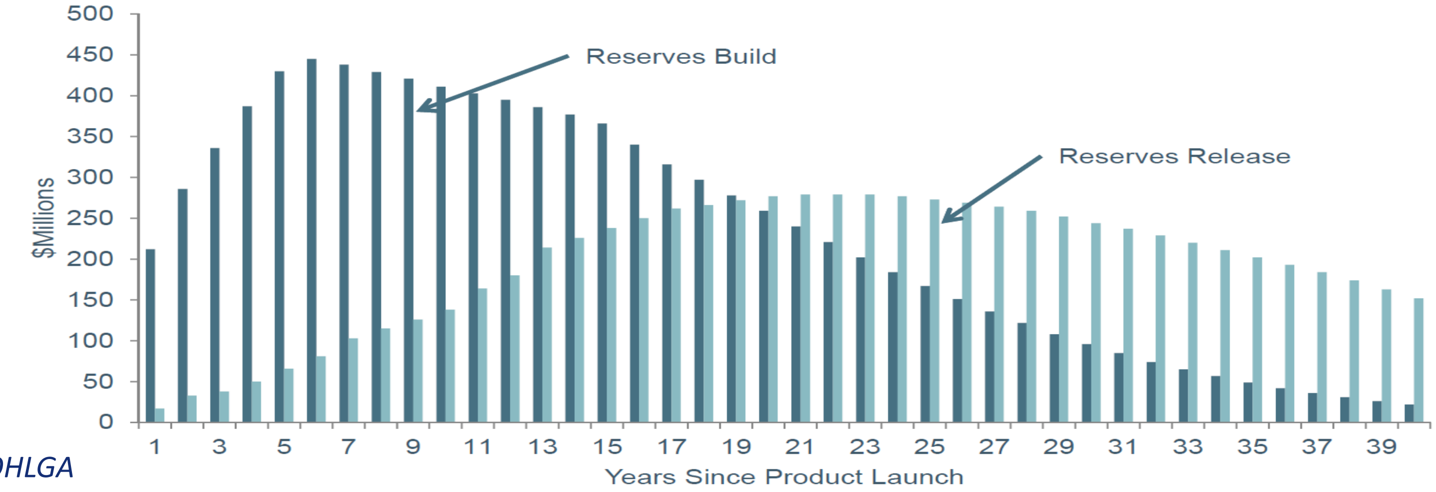
3 Key Reasons for Increasing Costs

1. Age – More likely to need long-term care
2. Underwriting – Wears off over time
3. Benefit Options – Inflation Protection

CHALLENGES

1. Low interest rates
2. Low lapse rates in later years
3. Decreasing mortality rates
4. Capital requirements
5. Regulatory Requirements





Source: NOHLGA

Losses Become Difficult to Overcome

- LTC premium base decreases while claim costs increase.
- Rate increases needed to offset deviations grow over time.
- Regulatory pressure on large rate increases.
- If losses aren't offset by rate increases, could result in reserve corrections.
- Solvency risk is highly correlated to a carrier's amount of 1st generation policies.

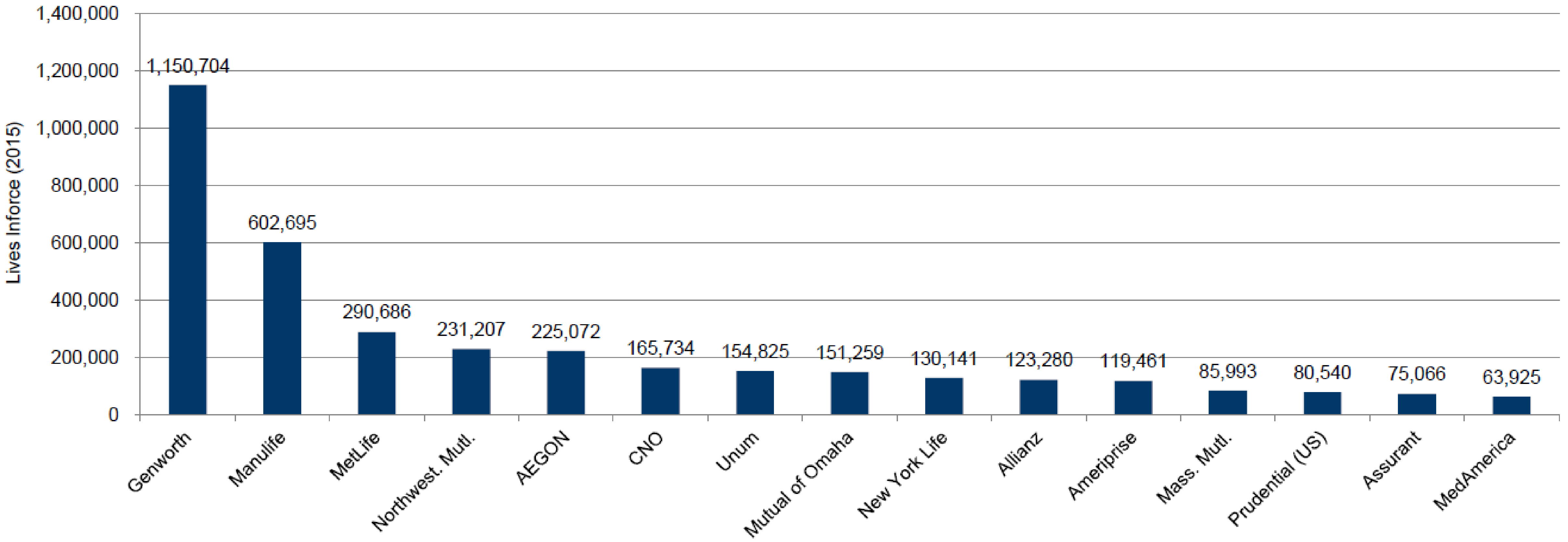
Rate Increase Required to Offset Future Losses

Deviation	Yr. 5	Yr. 10	Yr. 15	Yr. 20
+10% Claims	7%	11%	18%	27%
-1% Lapse	10%	16%	24%	34%
-1% Interest	8%	14%	20%	27%
All Three	28%	44%	64%	92%

Source: NOHLGA

Market Share of LTC Carriers

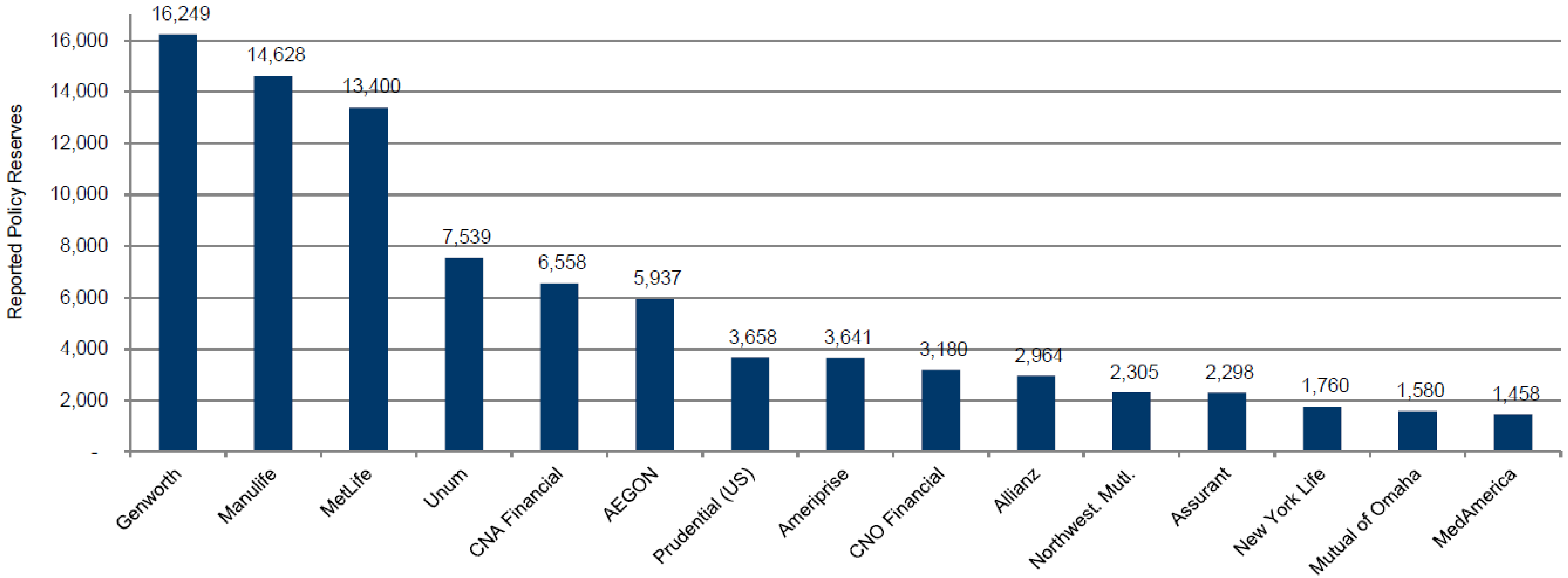
Figure 8: Market Share Measured by Lives Inforce (2015) – Individual LTC Only



Source: Credit Suisse Report 2017.pdf

Market Share of LTC Carriers

Figure 9: Market Share Measured by Reported Reserves (2015) – Individual LTC Only



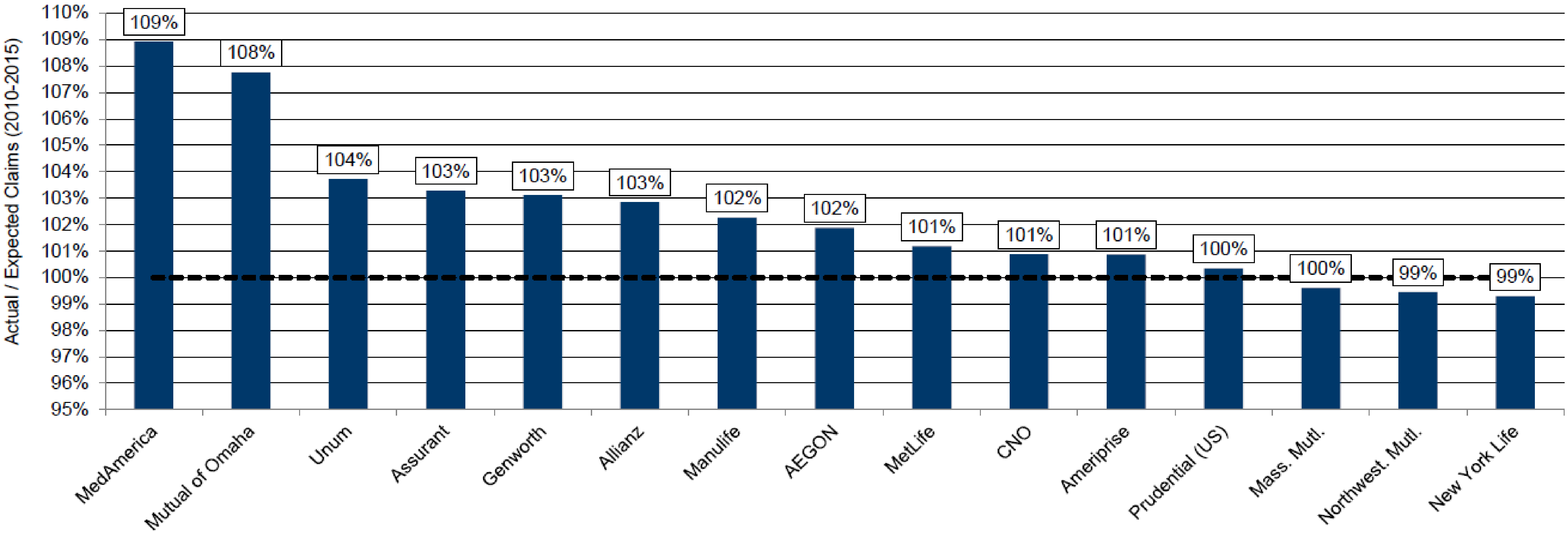
Source: Credit Suisse Report 2017.pdf

Financial Concerns

- Companies where Actual-to-Expected lives in-force and Actual-to-Expected claims exceed 100%
- Companies where LTC reserves are significantly higher than Total Statutory Capital and GAAP Equity

Actual-to-Expected Covered Lives

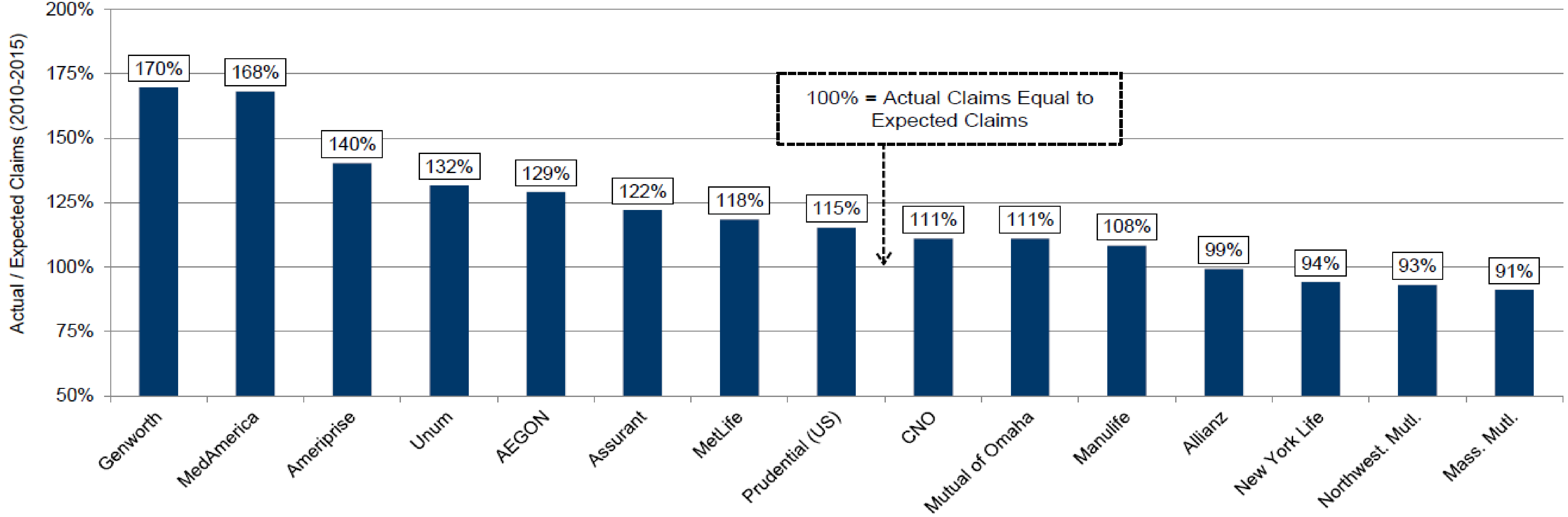
Figure 21: Actual to Expected Lives Inforce (2010 - 2015) – Individual LTC Only



Source: Credit Suisse Report 2017.pdf

Actual-to-Expected Claims

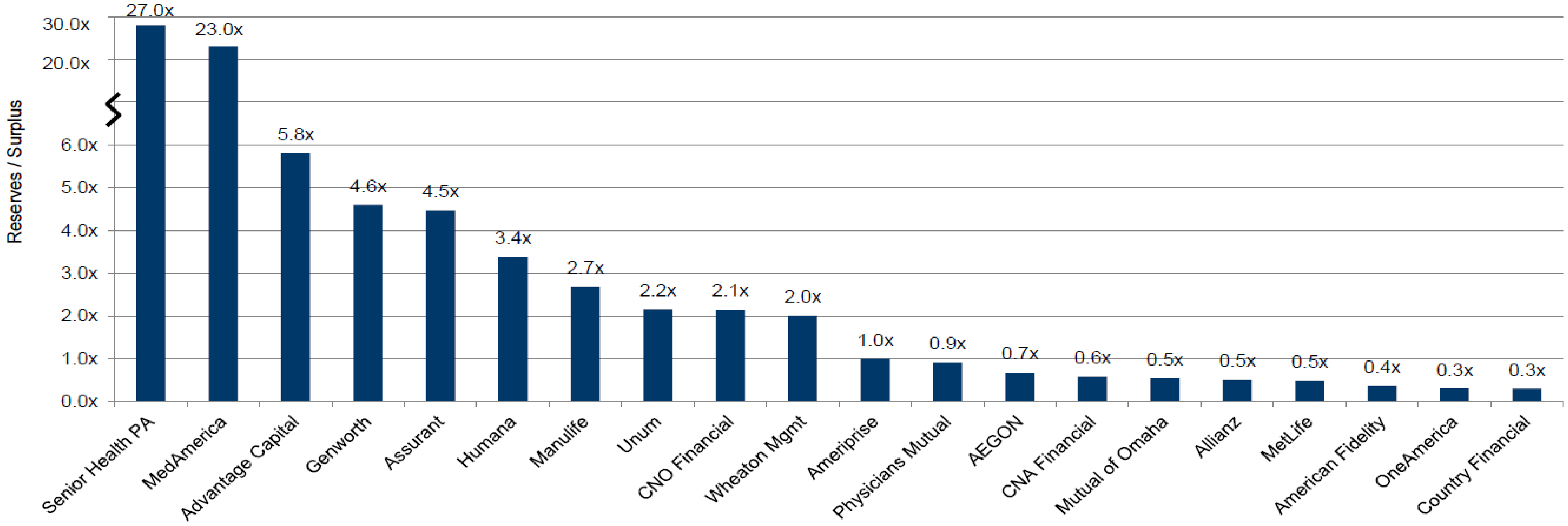
Figure 22: Actual to Expected Claims (2010 - 2015) – Individual LTC Only



Source: Credit Suisse Report 2017.pdf

LTC Reserves relative to Surplus

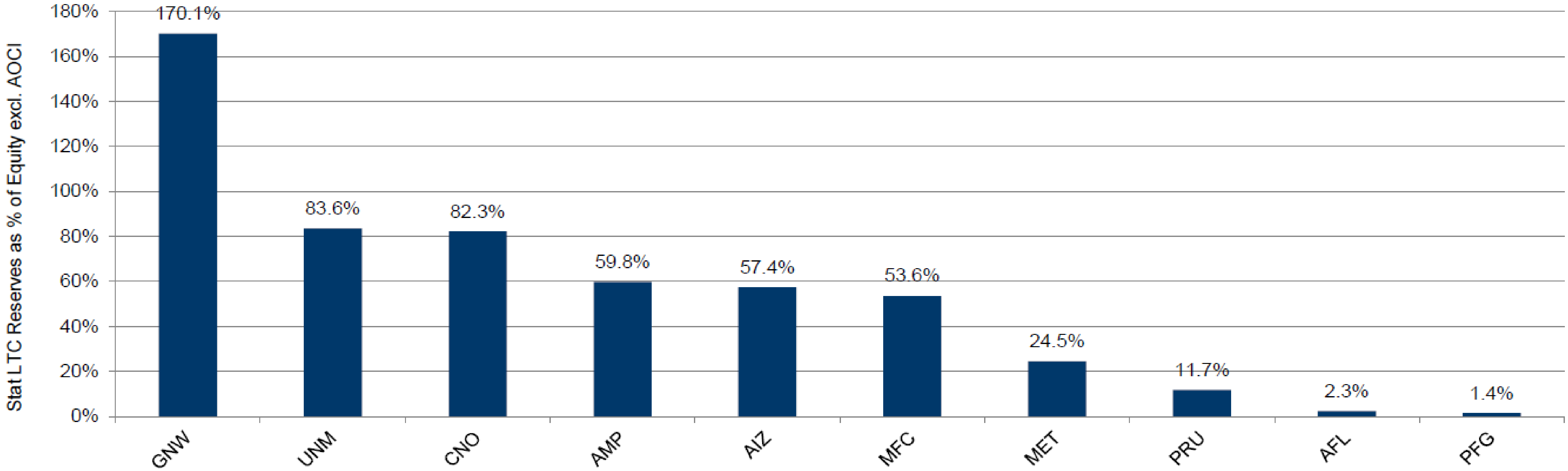
Figure 1: Reported LTC Reserves to Life Surplus (2015)



Source: Credit Suisse Report 2017.pdf

Statutory Reserves as % of GAAP Equity

Figure 2: Statutory Reserves as a % of GAAP Equity (excl. AOCI)



Source: Credit Suisse Report 2017.pdf

Life & Health Guaranty Act 2017 Amendments

- Currently, about 15 companies sell stand alone LTC
- Most insurers have never sold LTC
  - Penn Treaty - Health insurers liable even though never wrote LTC, $3-5 billion in liabilities
- Increased life and annuity LTC hybrids
  - 85% of new sales
- Life insurers to accept 50% of risk of future LTC insolvency
- HMOs also to be included under GA

Closed Rate Filings Since 2010

State	Filing Count	Avg Days Until Decision		Percent Approved as Requested	Max Approved		Average % Requested	Average % Approved
KY	214	103		29%	126%		48%	18%
Max	289	735		100%	360%		57%	48%
75%ile	186	209		51%	119%		47%	25%
Average	149	205		39%	105%		43%	21%
Median	162	154		34%	92%		42%	18%
25%ile	114	122		18%	71%		40%	14%
Min	2	39		0%	0%		25%	0%
AZ	212	150		44%	117%		41%	21%
CA	113	735		15%	60%		52%	11%
CO	167	119		34%	68%		40%	16%
FL	171	279		6%	108%		50%	10%
IL	172	381		75%	173%		43%	36%
NJ	129	198		30%	96%		43%	22%
PA	215	121		22%	70%		40%	16%
TX	220	118		32%	110%		52%	25%
VA	126	542		29%	100%		44%	17%
WA	158	129		70%	175%		39%	32%

Source: California DOI

Closed Rate Filings Since 2010

	When Rate Request Equals:																	
	<20%			20-40%			40-60%			60-80%			80-100%			>100%		
State	Requested	Approved	Percentage	Requested	Approved	Percentage	Requested	Approved	Percentage	Requested	Approved	Percentage	Requested	Approved	Percentage	Requested	Approved	Percentage
KY	16%	11%	69%	29%	18%	61%	50%	21%	43%	69%	24%	35%	93%	26%	28%	140%	22%	16%
Max			166%			100%			100%			100%			105%			100%
75%ile			87%			72%			62%			64%			51%			26%
Average			75%			57%			49%			47%			37%			27%
Median			76%			56%			47%			43%			31%			15%
25%ile			66%			42%			37%			23%			19%			7%
Min			0%			0%			0%			14%			0%			0%
AZ	15%	11%	75%	28%	19%	67%	50%	27%	53%	70%	27%	38%	93%	47%	50%	131%	8%	6%
CA	18%	11%	63%	30%	12%	39%	50%	18%	37%	72%	10%	14%	91%	4%	4%	159%	13%	8%
CO	16%	11%	71%	30%	12%	40%	49%	30%	62%	72%	31%	42%	94%	22%	23%	132%	9%	7%
FL	13%	6%	50%	30%	10%	33%	50%	12%	24%	72%	16%	23%	91%	6%	6%	193%	11%	6%
IL	16%	16%	99%	30%	25%	83%	52%	46%	88%	73%	66%	91%	93%	66%	71%	139%	103%	75%
NJ	15%	10%	70%	29%	16%	54%	48%	27%	56%	70%	37%	53%	93%	48%	52%	119%	8%	7%
PA	15%	11%	73%	30%	16%	56%	49%	22%	44%	72%	20%	28%	93%	20%	22%	149%	18%	12%
TX	15%	12%	77%	29%	17%	60%	51%	27%	52%	72%	36%	51%	92%	43%	46%	173%	45%	26%
VA	16%	11%	66%	28%	14%	50%	51%	18%	35%	71%	28%	39%	93%	43%	46%	120%	0%	0%
WA	14%	12%	89%	30%	25%	82%	49%	43%	87%	72%	62%	87%	95%	13%	13%	124%	103%	83%

Source: California DOI

Regulatory Approaches to Rate Increases

LTC Pricing Approaches

1. Prior to 2000, lifetime loss ratio e.g. 60%
2. 2000-2014, rate stabilization – moderately adverse, 58/85 rule
3. After 2014, NAIC Model #641 (~12 states)
   a) 10% minimum margin
   b) Annual certification of rates
   c) Regulator can consider alternative increases, schedules
   d) Modified 58/85

LTC Review Approaches

1. Lots of state variation, primarily due to “recoupment of past losses” and “delays”
2. Approaches
   a) Actuarially supported for specific statute
   b) “If-Knew” premium
   c) Prospective present value
   d) Nationwide average premium
   e) Blended cost sharing approach by layer of Increase
   f) Rate increase caps, including by age
   g) Moratorium on increases
   h) Restrict how often can request increases

Regulatory Approaches to Rate Increases

LTC Pricing Sub-Group

1. Goal - develop a framework to achieve greater transparency and predictability in the review and approval of LTC rate increase requests.
   https://www.naic.org/cmte_b_ltc_price_sg.htm
2. Define "Recoupment of past losses"

Streams of potential losses or deficiencies stem from two general sources

1. Past and future premiums are insufficient.
   - Premiums that were paid by policyholders who are still currently active
   - Premiums that were paid by policyholders that currently are in paid-up status
     - They are not on claim, but they are no longer paying premium under the terms of the policy
   - Premiums that were received from lives that have lapsed coverage
     - They are not paying premium but they are not on claim
   - Premiums that were paid by policyholders that were active but are currently on claim at the time of the rate increase.
2. Past and future incurred claims being worse than expected.
   - Those who remain active and continue paying premium
   - Those who are currently on claim but recover and begin paying premium again.

THANK YOU

QUESTIONS?