Long-Term Care Insurance

Interim Joint Banking and Insurance Committee
Kentucky General Assembly
October 2, 2019

Chuck Piacentini, Vice President, Insurance Regulation and Associate General Counsel, ACLI
Jan M. Graeber, ASA, MAAA, Senior Health Actuary, ACLI

Agenda

- Long-Term Care Insurance Product Features
- Pricing
- Reserves
- Premium rate increases
- Looking Forward: Access and Affordability

LTC Insurance

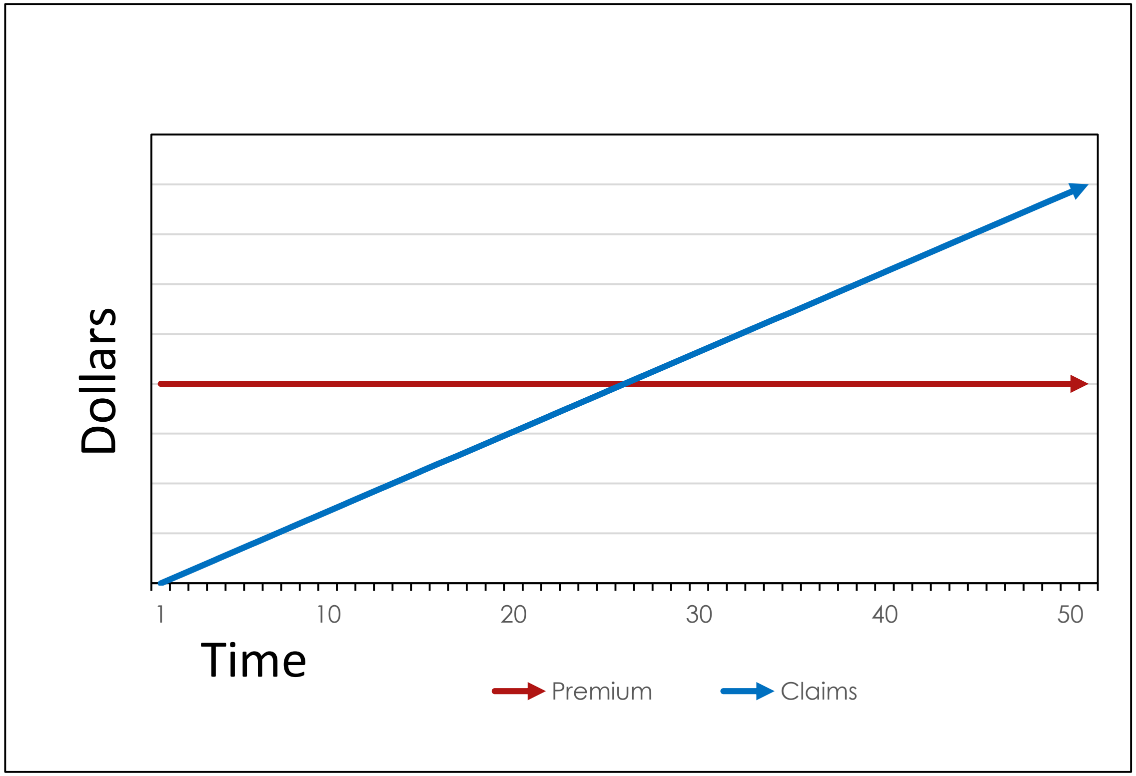
- Long-Term Care Insurance Pays Out Upon Disability
  - Two or more Activities of Daily Living
  - Cognitive Impairment
- Long-Term Care Benefits Are Received
  - At Home
  - Assisted Living Facility
  - Nursing Home

LTC Insurance Benefits

- Long-term care benefits are not paid as a lump sum.
  - A benefit is paid each day up to the maximum daily benefit stated in the policy. For example, $100, $200 or $300 per day.
  - The amount of the daily benefit can increase if inflation protection is purchased. Inflation protection automatically increases daily benefits each year to keep up with increases in costs of care.
- Long-term care benefits might not begin immediately upon disability.
  - Typically, benefits begin 60, 90, or 180 days after benefits are triggered. This “elimination period” is stated in the policy.
  - A shorter elimination period costs more. A longer elimination period costs less.
- Benefits might not be paid during the entire disability.
  - The length of time a benefit is paid (benefit period) is stated in the policy.
  - A shorter benefit period will cost less than a longer benefit period.

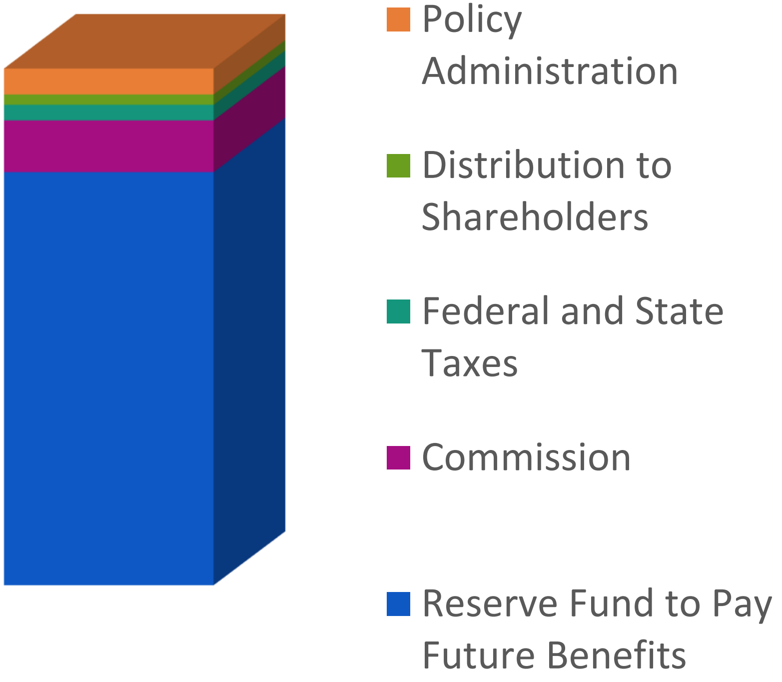
Mismatch of Premium and Claim Cash Flow

- Premium rates are expected to be at a level amount
- Claims are expected to increase over time
- This creates a cash flow mismatch for insurers
- Insurers must set aside some of the premiums in early years in a reserve
- Insurers use this reserve to fund claims in later years.



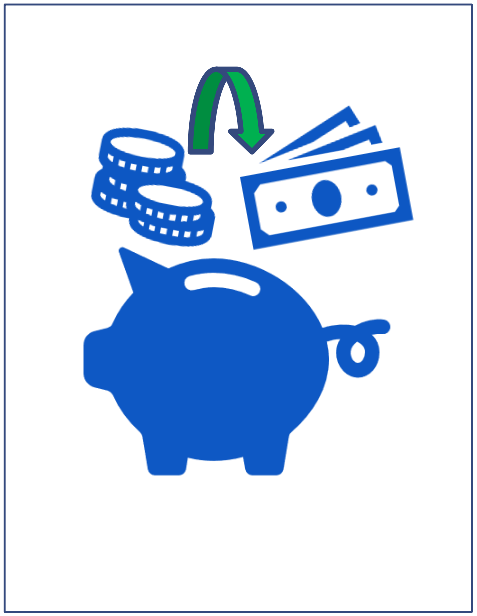
Use of Premium Dollars

- Premium dollars are used for:
  - Policy administration
  - Distribution to shareholders
  - Federal and state taxes
  - Agent commissions
  - Reserve fund to pay future benefits



The Reserve Fund is Like a Savings Account

- Net premiums are deposits
- Benefit payments are withdrawals
- Like a savings account, it earns interest
- The savings account is held for the benefit of all the policyholders
- It can only be used to pay benefits for those who become disabled
- It is not paid to people who die or stop paying premiums

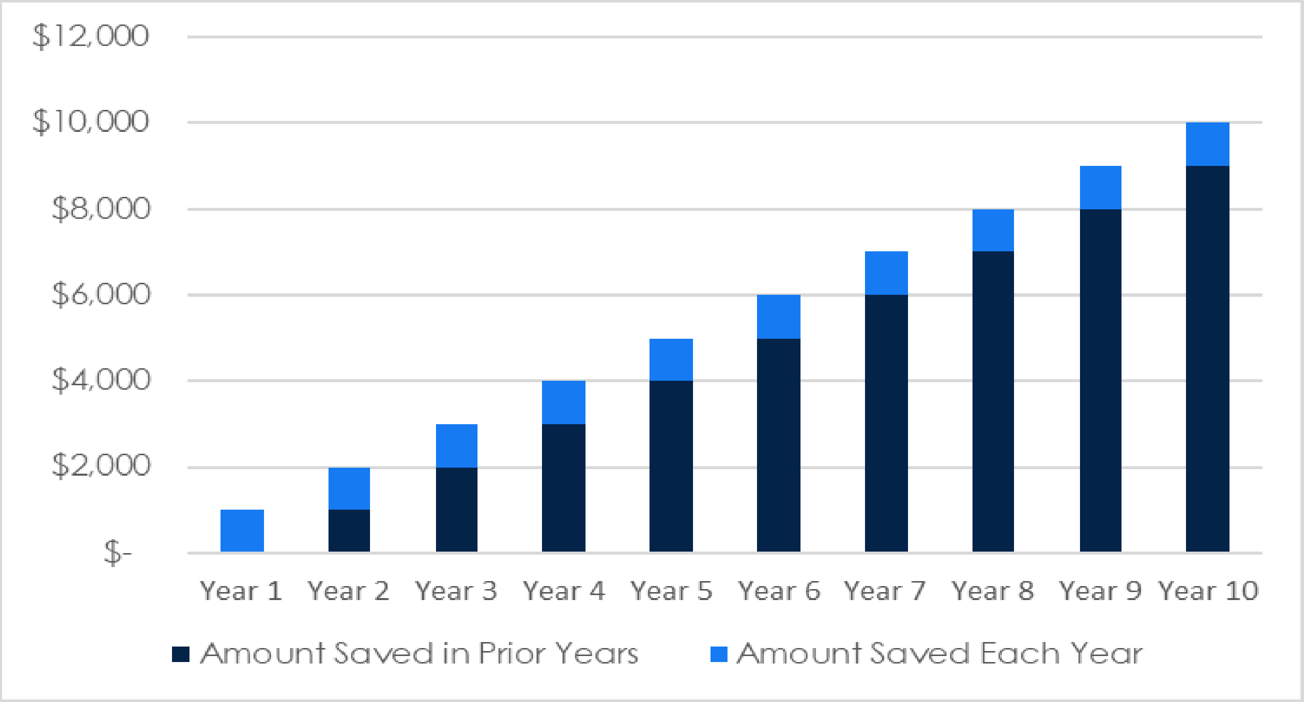


Savings Plan Example

Original Plan

- Need $10,000 at the end of 10 years

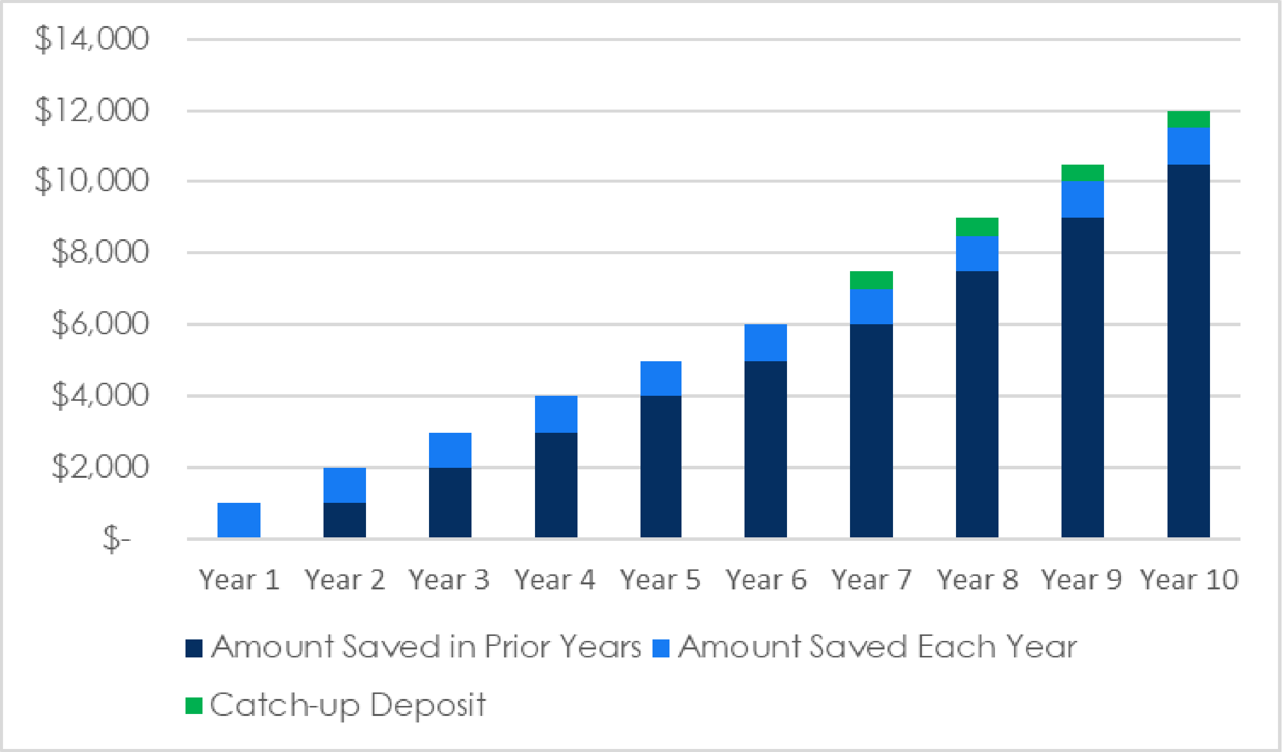
- Deposit $1,000 each year



Savings Plan Example

Revised Plan

- After 6 years it is determined that $12,000 is needed at the end of 10 years
- Deposits beginning in year 7 must increase by 50% to $1,500 per year



The net premiums are like scheduled deposits

The scheduled deposit amount (premium) is determined at the beginning based on estimates about:

- The amount that will be withdrawn (benefit payments)
- Interest rate that will be earned

If either of these estimates is different, the account may not have enough to cover future withdrawals

The amount of funds withdrawn depends on 3 key things:

- The number of people who keep their policies up to the point when benefits begin to be paid.
- Of the people who keep their policies, the number of people who use benefits
- Amount that is paid out to people who use benefits

When Long-Term Care is Priced

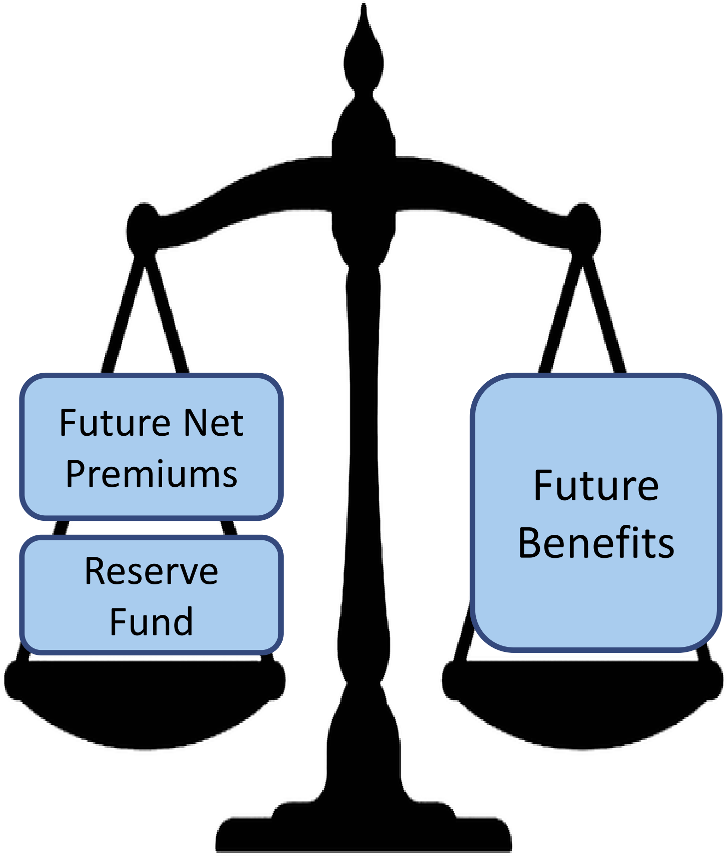
Future Net Premiums

+

the Reserve Fund

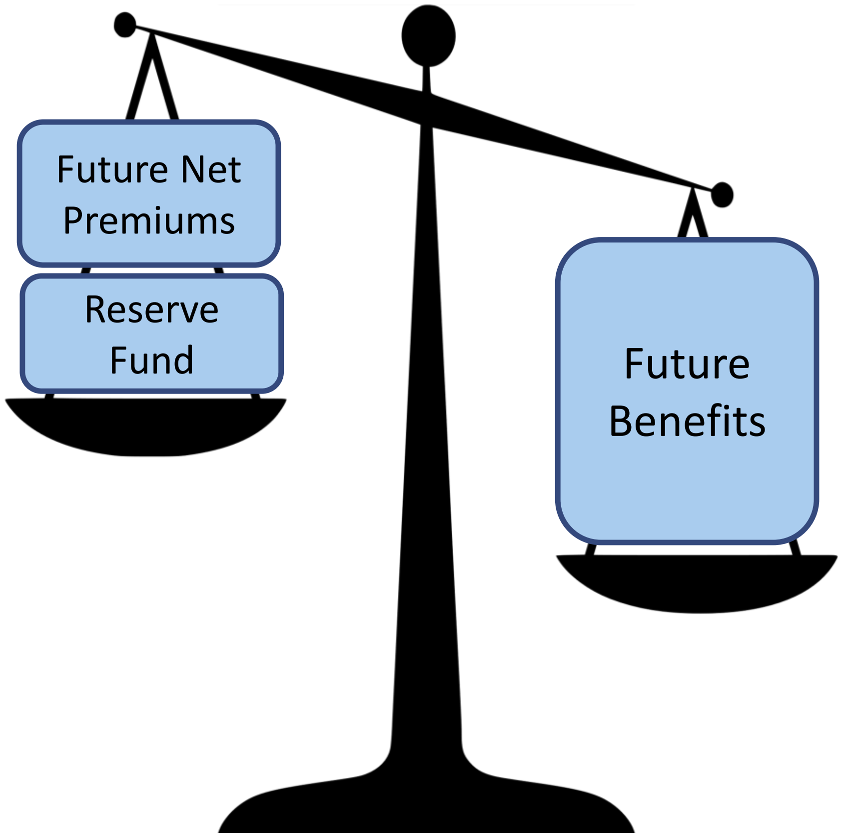
=

Sufficient to Fund
Future Benefits

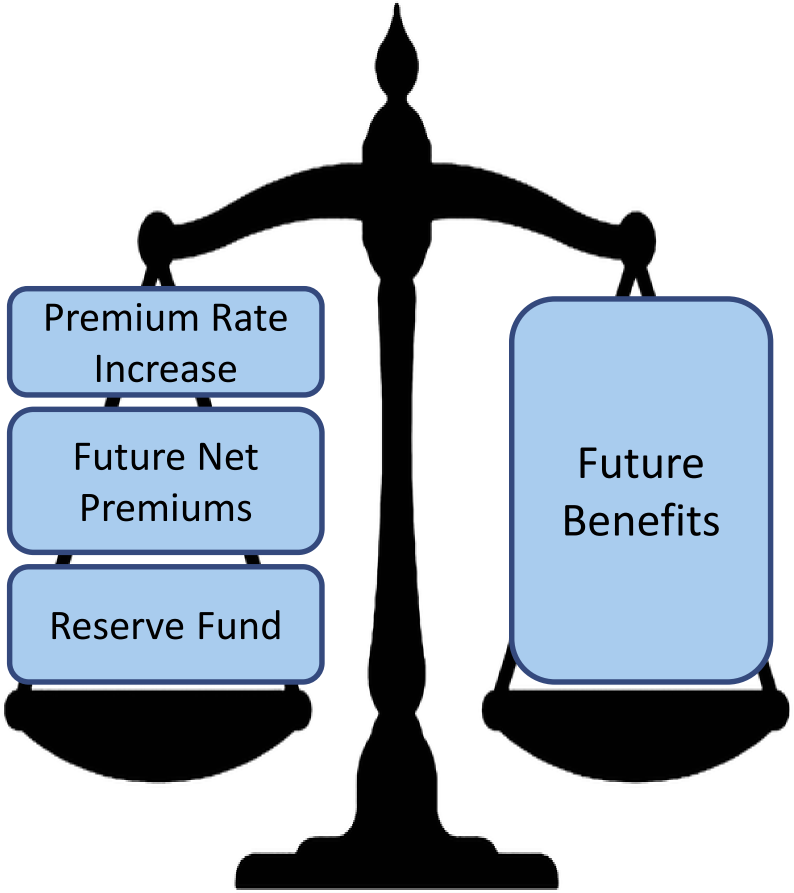


Out of Balance

- Expected future withdrawals outweigh the deposit schedule
- The two sides are out of balance.
- There will not be enough money to fund benefit payments.



Balance is Restored Through Premium Rate Increase



Looking Forward
Access and Affordability

- Long-Term Care Financing Options
- Preserving State Guaranty Associations
- Next Generation of Long-Term Care Solutions