

State of the Long Term Care Insurance Industry

KENTUCKY LEGISLATIVE RESEARCH COMMISSION

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LEVEL PREMIUM

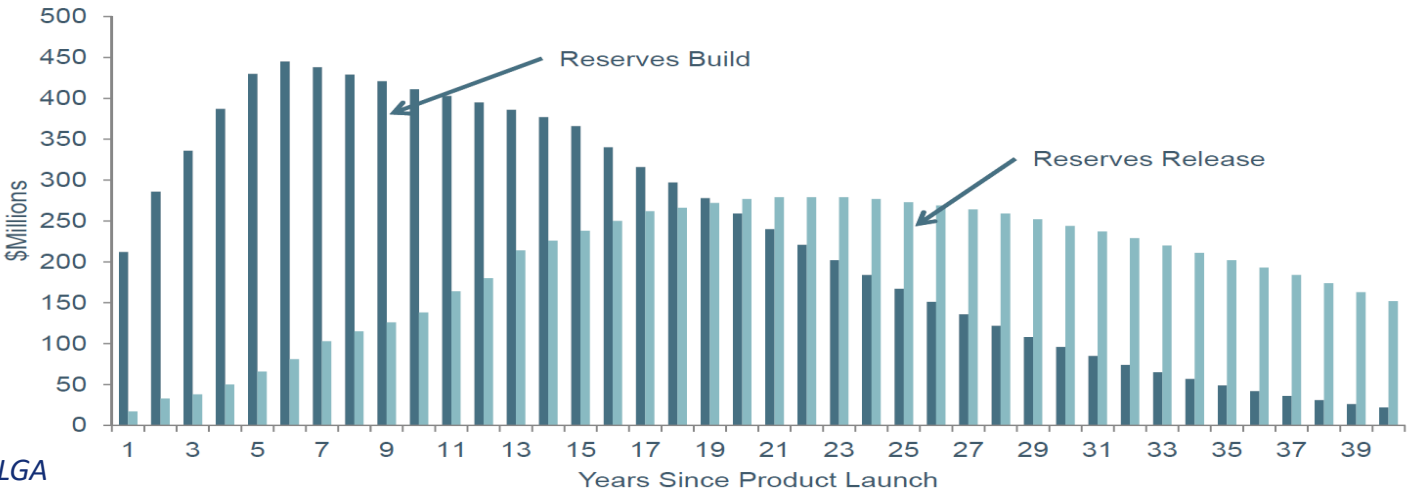
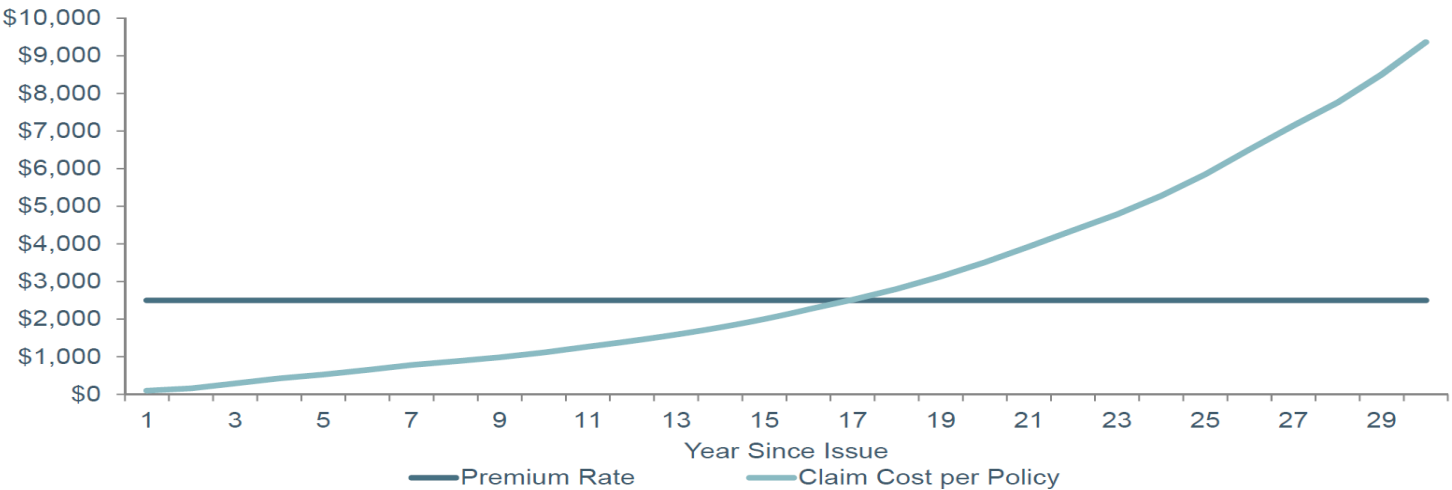
PRE-FUNDS INCREASING COST

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



Sources of 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.



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



Recent Market Developments



- General exit from the market of historically key players
- Penn Treaty liquidation process and impacts
- Highly publicized Genworth / China Oceanwide transaction
- New, creative and collaborative solutions being discussed to address legacy block challenges
- Limited LTC transactions have occurred to date given low interest rates and differing views on LTC risks.



Recent Market Developments



- Substantial growth in combo products
 - Increased life and annuity LTC hybrids
 - ❖ 85% of new sales
- Growth has been narrow in scope
 - A significant opportunity for even broader growth
 - “Middle Market” \$45k to \$100k
 - “Mass Affluent” \$100 to 150k”
 - Asset-Based products with Income-Based premiums

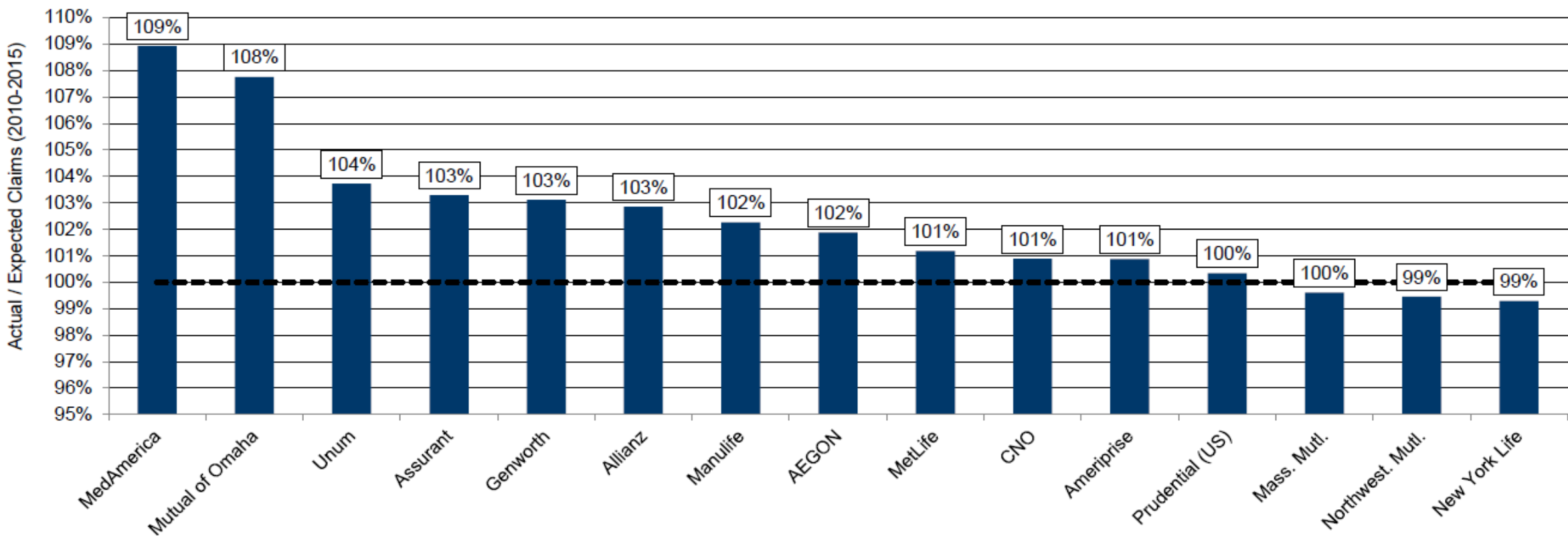


Financial Concerns



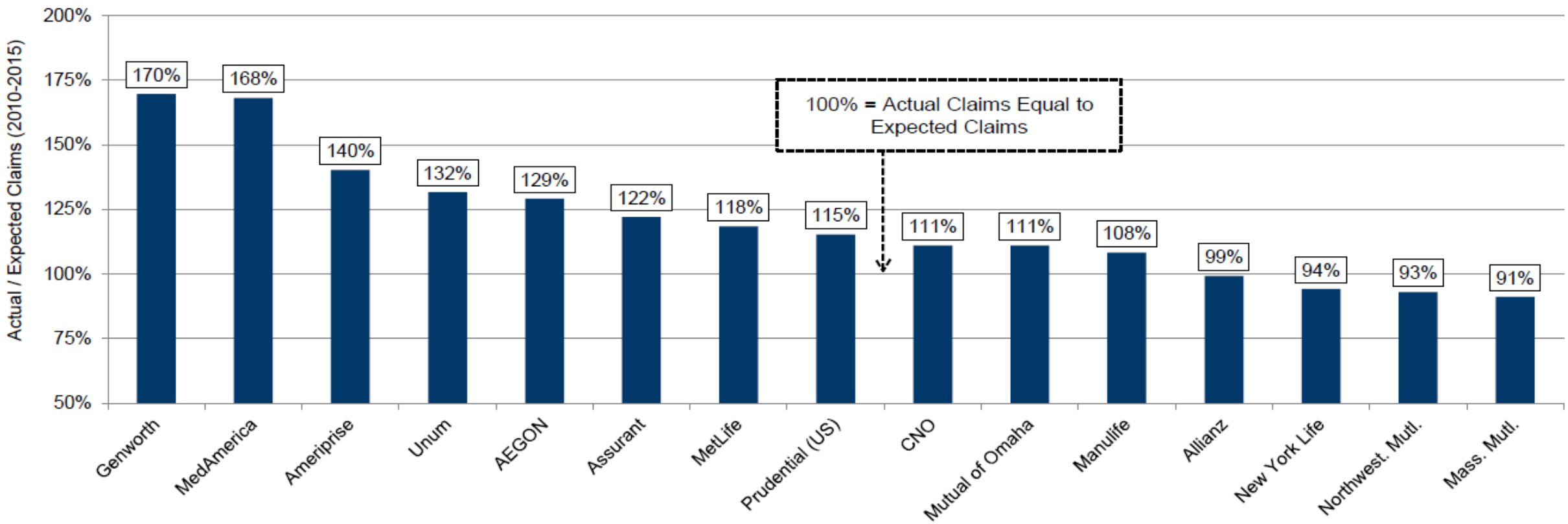
- Companies where Actual-to-Expected lives in-force and Actual-to-Expected claims exceed 100%
- Companies where LTC reserves are significantly higher than Total Statutory Capital and GAAP Equity

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



Source: Credit Suisse Report 2017.pdf

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



Source: Credit Suisse Report 2017.pdf



Regulating LTC Blocks



National Association of Insurance Commissioners (NAIC)

- LTC Insurance (B/E) Task Force
 - Insurance Business Transfer Concept
 - Solvency Concerns/Guaranty Association
 - Reporting of Developments in Experience
 - Rate Increase Uniformity
- LTC Valuation Subgroup
 - Actuarial Guideline 51 effective 12/31/2017
 - Experience Reporting Review



Regulating LTC Blocks



NAIC

•LTC Pricing Sub-Group

- Goal - develop a framework to achieve greater uniformity, transparency and predictability in the review and approval of LTC rate increase requests.
- Fairness of Benefit Reductions
 - ❖ LTC Benefit Adjustment Subgroup (Inflation topic)
 - ❖ “Trendy” Options
- https://www.naic.org/cmte_b_ltc_price_sg.htm

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, disincentivizes underpricing
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

Regulatory Approaches to Rate Increases

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 Review Approaches

3. Phase Ins
4. Guarantees
 - a) 2 years, 3 years, 5 years.... 15 years, Never Again?
 - b) Actuarial vs. Legal perspective
5. Landing Spots
 - a) The largest rate increases are often on the policies with inflation protection.
 - b) Determine the actuarially equivalent increase where a policyholder with a 5% compound inflation rider can mitigate say a 100% rate increase down to 0% as long as they reduce the inflation percentage.
 - c) Consumers typically get to keep the current inflated daily benefit and still have some inflation protection.



Rate Increases



Pre 2000 vs. Post 2000 (Rate Stabilization)

Average cumulative rate increase:

55% on pre-2000 vs. 31% on post 2000

Median increase has also dropped:

46% on pre-2000 to 20% on post 2000



Closed Rate Filings Since 2010



State	Filing Count	Avg Days Until Decision	Percent Approved as Requested	Max Approved	Average % Requested	Average % Approved
KY	282	98	35%	126%	41%	21%
Max	345	806	103%	360%	56%	31%
75%ile	252	191	48%	175%	45%	23%
Average	212	200	40%	138%	42%	21%
Median	209	149	34%	118%	42%	21%
25%ile	178	120	28%	96%	39%	18%
Min	98	32	15%	75%	34%	11%
AZ	256	104	44%	232%	48%	25%
CA	141	806	28%	108%	46%	16%
CO	199	108	41%	175%	41%	22%
FL	178	274	26%	232%	52%	21%
IL	232	325	57%	175%	42%	30%
NJ	184	166	35%	96%	37%	20%
PA	310	120	37%	232%	42%	22%
TX	277	132	39%	120%	49%	24%
VA	209	524	27%	101%	47%	17%
WA	230	137	46%	107%	38%	21%

Source: California DOI

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
KY	16%	14%	86%		29%	18%	61%		49%	24%	48%		71%	34%	49%		91%	25%	28%
Max			144%				86%				86%				82%			79%	
75%ile			84%				67%				58%				57%			45%	
Average			80%				60%				53%				48%			37%	
Median			80%				58%				52%				49%			34%	
25%ile			75%				55%				48%				37%			26%	
Min			66%				32%				14%				26%			4%	
AZ	15%	12%	76%		30%	18%	60%		50%	31%	62%		72%	39%	54%		92%	47%	51%
CA	16%	11%	70%		30%	16%	53%		51%	21%	41%		74%	22%	30%		91%	7%	8%
CO	15%	12%	81%		30%	19%	62%		49%	35%	72%		75%	37%	50%		94%	14%	15%
FL	15%	11%	76%		31%	17%	55%		50%	24%	48%		70%	22%	31%		91%	30%	33%
IL	15%	11%	77%		31%	23%	76%		51%	44%	86%		72%	40%	55%		90%	61%	68%
NJ	15%	12%	80%		31%	19%	61%		49%	26%	53%		70%	41%	59%		92%	39%	43%
PA	15%	13%	83%		30%	21%	68%		50%	26%	51%		72%	26%	35%		91%	33%	36%
TX	16%	13%	81%		29%	18%	60%		50%	28%	57%		73%	38%	53%		92%	40%	44%
VA	16%	10%	67%		30%	16%	54%		50%	21%	42%		71%	19%	27%		92%	37%	41%
WA	14%	12%	85%		31%	18%	58%		50%	33%	66%		71%	38%	54%		90%	18%	20%



THANK YOU

QUESTIONS?