2024
SUPPLEMENTAL HEALTH, DI & LTC CONFERENCE

The Winning Trifecta

Long -Term Care 101: Foundations & Basics

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Long-Term Care 101: Legacy Books

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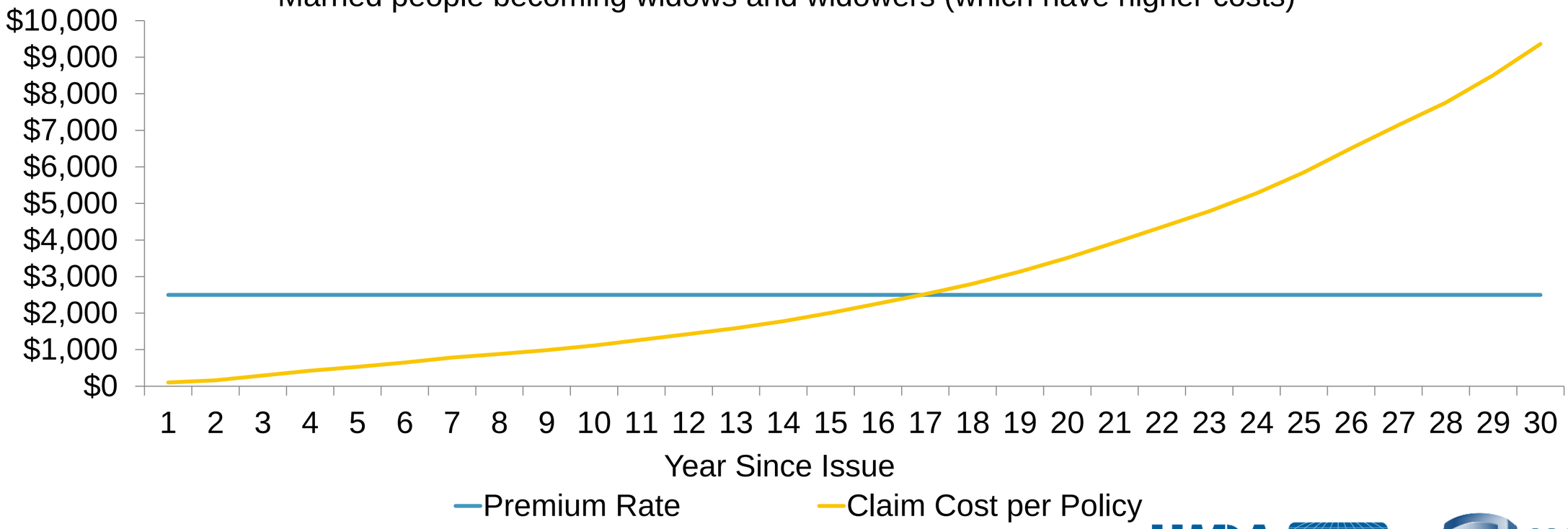
Stand-Alone LTCI Features

- LTCI was first introduced in the U.S. in the mid 1970s. The early versions paid limited benefits for stays in skilled nursing facilities only. These were called “SNF policies”.
- Modern version emerged in the late 1980s and were patterned after U.S. disability income plans
- Most have a defined benefit trigger: requires assistance with 2 out of 6 activities of daily living (“ADLs”) or requires supervision due to a severe cognitive impairment
- Once trigger is met: costs for qualified services are reimbursed up to a daily maximum benefit
  - Usually care received in a skilled nursing facility (now referred to as nursing home), assisted living facility or by a qualified home health care professional
  - Some plans do not require expenses to be incurred. A cash benefit is paid to the claimant as long as he continues to meet the benefit trigger conditions.
- Specified maximum benefit (maximum amount of benefits paid for an episode of care) and elimination periods (time at the beginning of care episode that is not covered)
- Inflation protection option: e.g., daily benefit increases 5% each year
- Issue age rated: premiums are intended to be level for life
  - Guaranteed renewable: insurer cannot cancel as long as required premiums are paid
  - Premium increases must be actuarially justified and approved by regulators

Level Premium Pre-Funds An Increasing Cost

Four forces contribute to increasing claim costs:

- Older people more likely to need long-term care
- Wear-off of underwriting effect
- Benefits increase for policies with inflation protection
- Married people becoming widows and widowers (which have higher costs)



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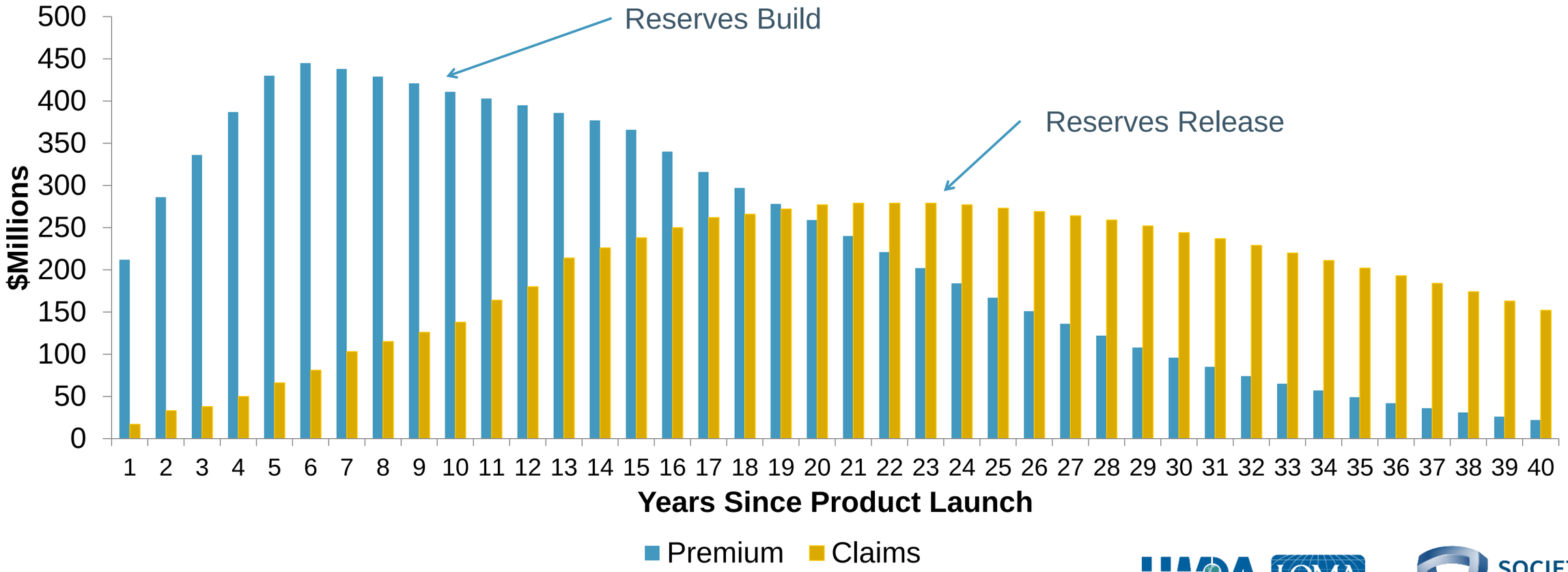
Cash Flow Pattern

- Level premium rates and increasing claims costs results in a cash flow mismatch
- Companies must hold an active life reserve that builds and releases over time



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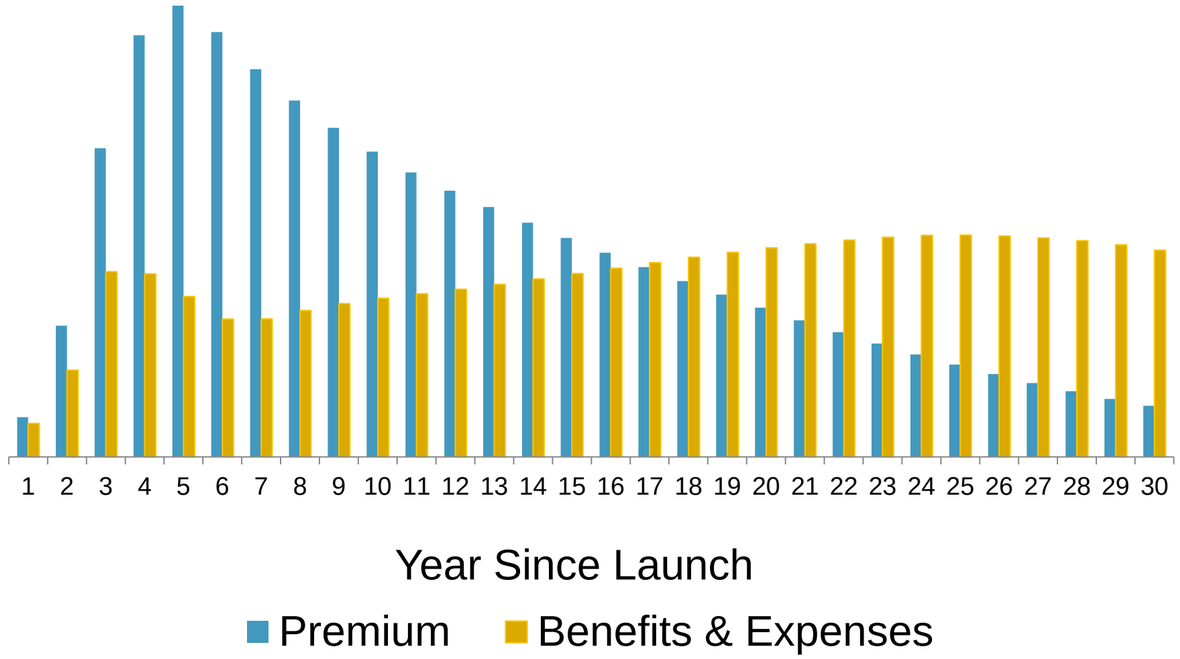
Losses Become Difficult To Overcome

- LTC premium base decreases while claim costs increase
- Rate increases needed to offset deviations grow dramatically over time
- Regulators resist large rate increases (>25%); require benefit reduction options
- Often impossible to offset losses completely, resulting in reserve corrections

Cash Flows By Year Since Product Launch



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%

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Unique Distribution Challenges

Challenges:

- 177 carriers entered the LTCI market; 56 sold 10,000+ policies; 74 sold <1,000
- Extreme example of a product that is “sold not bought”
  - In spite of high initial consumer interest in LTC insurance
  - Lack of consumer awareness of level of risk and costs
  - Sticker shock of high premium rates
- Broad distribution channels do not push LTC products
  - Lack of understanding of product; discomfort selling
  - Already successful selling other products

Response:

- The successful carriers utilized “LTC specialists” to sell their products
  - Agents that are trained to sell LTC almost exclusively
  - Small distribution pockets produced a majority of sales
  - Initial specialists were captive; independent specialists later emerged
- Specialists are trained to:
  - Patiently sit with customer leads – often several hours
  - Educate customers about risks and complex products
  - Have rational responses to premium amounts

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What went wrong with legacy books?

Emerging environmental factors that were unforeseen in pricing adversely affected stand-alone LTCI profitability and sales…

- 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 in lifespans
- Emergence of assisted living facilities
- Rate increases became political, not actuarial
- 100+ to about 10
- 20k+ became ~2k
- Smart buy to risky buy

…many carriers have realized that they cannot rely on premium rate increases to rehabilitate legacy books and are exploring alternative methods of doing so

Benefit Reductions And Alternative Offerings

- **Actuarial equivalence** of reduction offers
  - Definition: the future value of an offer must be actuarially equivalent to the premium rate increase being implemented, or that the offer produces a similar future loss ratio
  - Carriers introduced this concept during the “landing spot” initiative several years ago
  - Although regulators appreciate the gesture, most states don’t view this as requirement
    - Policyholders can generally call in and request downgrades and not have them be subject to actuarial equivalence tests
- **Consumer testing** of offers has become common; provides insights on appeal and presentation of offers
- **Freeze and drop** offer to policies with benefit inflation riders:
  - Definition: drop the inflation rider, stop paying premium for the rider and the current daily benefit is maintained without future increases
  - Value of the future benefit increases is much more than the value of the rider premium
  - Implemented by at least three carriers
- **Cash outs** have been offered by at least two carriers with regulatory support in most states
- **Enhanced nonforfeiture options** with RPU benefits much greater than premiums paid
- **Conversion to indemnity** in exchange for a shortened benefit period offered by at least one carrier
- **Combo conversion** offers are being considered by a few carriers
- Regulators have expressed concern about possible policyholder confusion and lack of informed advisors

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Managed Care Programs

Successful managed care programs exist outside of traditional LTCI:

Managed Medicaid LTC

- Medicaid enrollees benefits are placed with commercial managed care companies and are paid capitation fees to manage the health care needs of the enrollees
- Some enrollees require LTC services; the commercial carrier's monthly payment is increased based on the level of disability of the enrollees and the carrier must cover LTC services

And

Continuing care retirement community without walls (CCaH)

- Members join a CCaH when they are healthy and pay a monthly fee that can increase each year
- The CCaH manages and covers the costs of care of the members if and when they need LTC services
- Objective is to enable and prolong aging in place before and during the LTC episode

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- Both programs regularly assess their members' health and risk of needing LTC services prior to the point of needing LTC and actively manage care once LTC is needed
- Both programs have demonstrated an ability to intervene early, deliver high quality care at the level that is most appropriate for its members, and **enable and prolong the delivery of care at home, reducing facility transfers**
- These are not traditional LTCI products but do demonstrate that **early engagement** with at-risk populations and **active care management** can be effective.

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Aging-In-Place And Wellness Services Landscape

First offer point:	Healthy population	At-risk population	On-claim population
Engagement Products and services that engage the consumer in order to obtain data and provide guidance and interventions	Lifestyle apps Fitness wearables Annual assessments Symptom detection Cognitive exercises “Alexa for seniors” Tele-med platform	Monthly assessments Cognitive health tracking Fall prevention Wearable alert systems Passive monitoring devices Family engagement	Hospital discharge planning* Claim eligibility assessment*
Support Products and services that support aging in place, excluding long-term care services	Medication management	Cognitive care planning Home modifications Transportation Community services concierge	Long-term care provider referrals* Care provider matching* Care concierge & coordination* Family caregiver support Family caregiver training
Care Informal and formal long-term care services		Cognitive therapy Informal community services	Hospital discharge services* Home health care Adult day care
Analytics Services that collect and analyze data to generate predictive risk scores and intervention effectiveness scores	“Big data” collection Data collection from devices Risk scoring Intervention scoring		Facility transfer risk scoring

*Primarily provided at the point that formal long-term care services are initiated

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Aging-In-Place And Wellness Program Pilots

Pilots to explore partnerships with innovators are often embraced by leadership, only to face challenges in planning and implementation…

- **Onerous vendor screening and contracting:** Entrepreneurial innovators become frustrated with cumbersome vendor contracting processes
- **Rebating:** Legal concerns that extra-contractual pilot services can be viewed as rebating
- **Equity:** Legal concerns that treating policies chosen for a pilot in a manner that is different than the general population can be viewed as inequitable
- **Impact on claim adjudication processes:** Concern that additional information collected in claim prevention pilots leads to approving claims that would otherwise be denied
- **Hesitance to refer claimants to providers:** Concern that referring claimants to preferred providers represents bias and creates legal exposure for provider performance
- **Middle management:** Middle management resistance to changes in established processes

External Perspectives

Regulators and market analysts are increasingly skeptical…

- **Market analysts** believe that cash flow testing / loss recognition assumptions are aggressive:
  - No convincing evidence of historical morbidity improvement within insured blocks
  - Mortality improvement should be assumed and does not correlate to improvements in frailty
  - Concern that carriers assume that interest rates will revert to historical levels
  - Concern that care delivery will continue to evolve, making LTC less of a stigma
  - Lack of transparency and continual adjustments have resulted diminished credibility

- LTC is a leading concern among **Regulators**:
  - The Penn Treaty insolvency was the largest in guaranty association history
  - Senior Health Insurance Co of Pennsylvania in rehabilitation
  - Dwindling RBC ratios among several carriers with substantial LTC exposure
  - AG51 implementation and reviews
  - Regulators now understand the shortening premium runway
  - Premium rate inequities are a concern, resulting in “harmonization” efforts
  - Wariness of efforts to isolate blocks via business transfer statutes

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Mergers And Acquisitions Landscape

Continued interest and activity, but few deals…

- **Seller motivations**
  - General industry trend to dispose of closed blocks
  - LTC administrative activity increases with an aging block
  - Sophisticated IT platforms required
  - Very specialized product management
  - Risk of future reserve adjustments
  - LTC viewed as an “earnings drag” by market analysts
- **Buy-side dominated by private equity backed reinsurers:**
  - Attracted by duration of liabilities and ability to deploy alternative assets
  - Motivated sellers are willing to sell for a negative cede
  - Move administration to a place with scale
  - Implement best practice claims and in-force management
- **Difficult to find price points that both parties can agree with:**
  - Sellers reserve with optimistic future state assumptions
  - Buyers price with data-driven historical state assumption
- **Buyers and regulators prefer highly-rated buyers with large balance sheets**

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Insurance Industry Lessons Learned

If we had a chance to start over with LTCI, we would change the following:

- **We would allow for annual changes in premium rates**, just like we do with medical insurance. This would allow us to reflect emerging morbidity trends, cost of care inflation, care delivery changes, interest rate environment and longevity. Such changes should be expected by policyholders and regulators, and approval processes should be quick and easy.
- **We would design the products to be simpler and easier to understand**. This would have allowed for broader distribution of stand-alone LTCI through existing agents, direct to consumer, and through employers.
- **We would include managed care provisions**. We would require annual health checks while healthy, interventions while disabled and incentives to use preferred providers.
- **We would allow cash values in stand-alone LTCI products**, to allow policyholders to have equity in their products and possibly increase attractiveness to younger customers.
- **We would have stronger cooperation with state and federal governments**.
  - LTCI premiums would be paid with pre-tax dollars.
  - We would help the governments create public programs that coordinate with and wrap around private insurance. This could be subsidized premiums for the poor and public programs that cover long episodes of care after a period of 3 to 4 years.
  - We would ask the government to fund awareness campaigns about the risks of aging and properly planning for the payment of LTC.
  - LTCI could be sold via public exchanges to allow people become educated on plans and to purchase one directly and comparison shop.

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Long-Term Care 101: Modern Product Characteristics

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Product Features / Hybrid Product

- Modern LTC policies are reimbursement products with limited benefit pools
  - Benefit pool is typically defined by the Maximum Monthly Benefit (MMB) and Benefit Period (BP)
  - Insured must have qualified expenses to reimburse
  - Coverage offered today is usually comprehensive (facilities and home health care)
- Combination products are becoming more prevalent
  - Combo products can address some common consumer concerns with stand-alone products
    - Stand-alone LTC rarely has Death Benefit (DB) and no Cash Value (CV) so combo products can address the “use it or lose it” concern
    - Stand-alone LTC is guaranteed renewable so combo products can offer premium stability
  - LTC combo product will reimburse if insured has an LTC need, from CV source first then LTC insurance if claim continues
  - Combo product examples:
    - DB acceleration riders – most common examples in the industry are “no cost” riders that provide an actuarially equivalent LTC pool, other options are provided with a separate premium and accelerate DB dollar-for-dollar
    - WL/UL or annuity chassis with LTC benefit – more robust LTC protection than acceleration riders and are more expensive, require more underwriting

Target Markets

- Stand-alone is mostly sold to pre-retirement ages (50-65)
  - Baby boomers are a big current market
  - Combo products lean younger, especially DB acceleration
- Spousal discounts are common
- Group sales are unusual because of portability issues
- LTC consumers are mostly affluent
  - Premiums can be too cost-prohibitive for lower income consumers who may rely on public options
  - Policies can be designed to be tax-qualified because private insurance reduces public spending
  - On the other hand, consumers who are too affluent may choose to self-insure instead

Marketing / Health Insurance Portability And Accountability Act

- Many states (30+ and the Interstate Compact) require insurers to file marketing materials for approval LTC products
  - For comparison, only New Mexico requires this for IDI products
- HIPAA restricts what information can be shared between areas of a company (for example, Home Office and Distribution) and used for marketing
  - HIPAA applies to LTC products and LTC benefit riders, regulates Protected Health Information (PHI)
    - PI collected or created in relation to LTC insurance including UW, claims, other business processes
    - PHI can only be used for LTC business purposes and must be limited to the minimum amount necessary for the business purpose

Underwriting For LTC

- Companies tend to have very few underwriting classes for LTC products
  - There is limited experience to support the development of multiple UW classes
    - Partially because this is a newer product line
    - It also takes decades for experience to develop
  - More UW classes could lead to misaligned incentives
    - People in poorer health tend to be better LTC risks because they are unlikely to live to advanced ages
    - Insurance companies have lots of reasons to not want to offer lower premiums to people in poorer health
- Greater focus tends to be on mental ability and mobility
  - Conditions like Alzheimer's and dementia can lead to very expensive claims
  - Common causes for claim are falls leading to musculoskeletal issues

How / What Of LTC Claims

- Average claim age is early- to mid-80's though there is a wide spectrum for onset
- Claim length is really volatile depending on cause of claim
  - Most claims will last less than 3 years
  - Cognitive claims (Alzheimer's, dementia) can last much longer, 10+ years is not uncommon
- Initial claim set up is costly regardless, the reimbursement design means that insureds must submit expenses for duration of claim so maintaining a claim can also be expensive for an insurer

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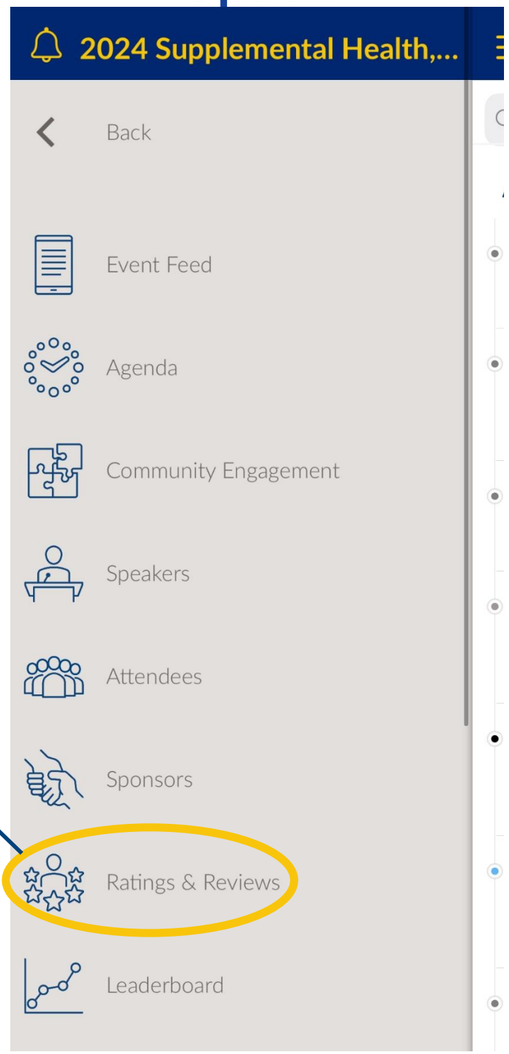
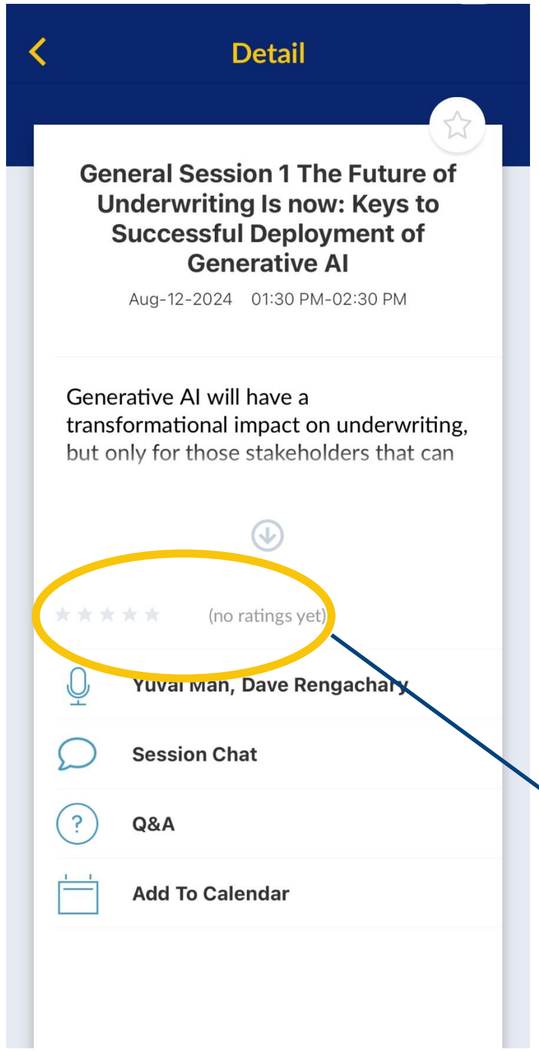
Module Option



Agenda Option



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Thank You

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