

The Future of Long Term Care Insurance

International Association of Black Actuaries (IABA)

Annual Meeting

August 7, 2014



Program

- 1 Long Term Care Insurance Historical Perspectives**
- 2 Potential Future Long Term Care Solutions**
- 3 Questions**

Industry Evolution

Industry Sales

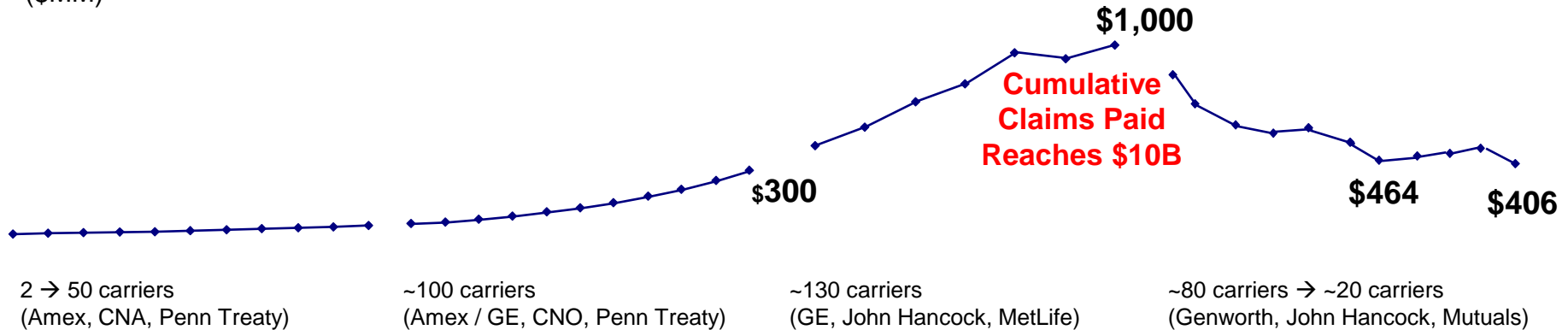
Emergence
(1970 – 1985)

Development
(1985 – 1995)

Expansion
(1996 – 2002)

Correction
(2003 – Present)

(\$MM)



2 → 50 carriers
(Amex, CNA, Penn Treaty)

~100 carriers
(Amex / GE, CNO, Penn Treaty)

~130 carriers
(GE, John Hancock, MetLife)

~80 carriers → ~20 carriers
(Genworth, John Hancock, Mutuals)

Pioneering players pursuing aging demographic

Name brands enter the market

Scale players emerge driving significant growth

Poor experience and the financial crisis drive rate increases and carrier exits

Sources: Company estimates, LIMRA, Long Term Care Experience report NAIC

Product Evolution

Product Design

Emergence
(1970 – 1985)

Development
(1985 – 1995)

Expansion
(1996 – 2002)

Correction
(2003 – Present)

Indemnity

Reimbursement

Gender Rating

Marital Discounts

Higher Rates

Benefit Design

Nursing Home

Home Care

Assisted Living

**Combination
Products**

Lifetime Benefits

Inflation Options

Care Coordination

**Benefit Duration
Limits**

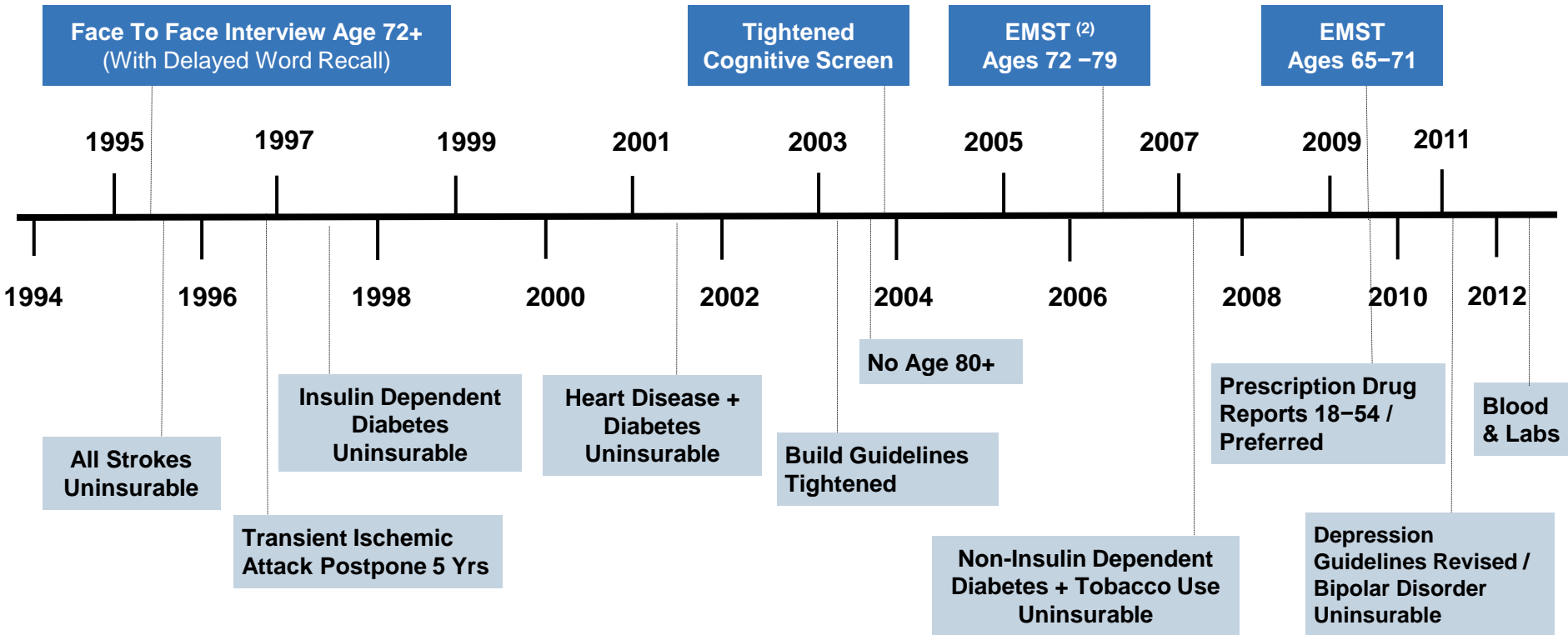
**Hospital Stay
Trigger**

**Medical
Necessity or
Cognitive Trigger**

**Activities of Daily
Living (ADL)
Trigger**

Underwriting Evolution

Cognitive Selection Evolution (1)



Physical Selection Evolution (1)

(1) Genworth underwriting guidelines

(2) EMST = Enhanced Mental Skills Test – Cognitive Screening Tool

Market And Product Observations

Today's LTC products exhibit inherently high risk profiles and the regulatory environment limits a carrier's risk mitigation options

For most carriers, in-force rate actions are a top priority

For the few carriers still writing new business, prices are higher and benefits are more limited

A handful of carriers have attempted to lower the product's inherently high risk profile by introducing risk sharing features but doing so within today's regulatory framework has resulted in products that are more complex

Overall, market sales have continued to decline and the bottom of the market is still forming

Program

1 Long Term Care Insurance Historical Perspectives

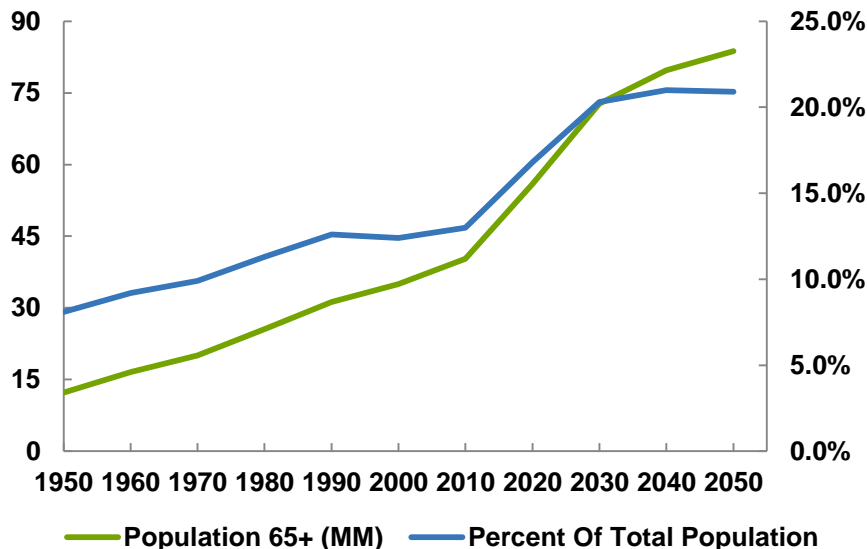
2 Potential Future Long Term Care Solutions

3 Questions

The Need For LTC

Aging Demographic

Population age 65+ is growing & becoming a larger percentage of the total population



Socio-Economic Trends

Unpaid family caregiver costs

10.5 million of the 12 million people needing LTC received care from unpaid family members
68% of Americans think family will care for them
Estimated 2009 economic value was \$450 billion

Shift in population mix

Between 2014 and 2060, over 190 million Americans will turn 65
135 million of these Americans will need LTC
While more Americans will need LTC there will be fewer potential caregivers to meet the need

Potential Caregivers Per Person Aged 80+

2010: 7.2 to 1

2030: 4.1 to 1

Sources: 2010 US Census; Kaiser Family Foundation, "A Short Look at Long-Term Care for Seniors", August 28, 2013; AARP Public Policy Institute, "The Aging of the Baby Boom and the Growing Care Gap," August 2013; "2014 Medicare & You," CMS, September 2013; "2014 National Population Projections," US Census Bureau, December 2014

LTC Is An Appropriate Insurable Risk

Value Is Created For Individuals Participating In A LTC “Pool”

Everyone has long term care risk

Almost 70% of people turning age 65 will long term care at some point in their lives

For each individual, the timing and the size of the long term care need is uncertain

Carrier Questions

Incidence, severity projection

Pool selection, underwriting

Regulator Questions

Public insurance (Medicaid) or private insurance or both

Regulatory catalysts

Source: US Department of Health and Human Services

Current LTC Insurance Solutions Form Part Of The Future

Today's LTC Product "Spectrum"

Individual LTC

Group LTC

Short Term Care

Life Insurance With LTC Extension Benefit Rider

Life Insurance With LTC Acceleration Benefit Rider

Annuities With LTC Extension Rider

Additional Products Need To Serve The Middle Market ...

Low Income And Currently Disabled At All Income Levels

- **Generally, can't afford private insurance, or not insurable risk**
- **Preserve the viability of the existing Medicaid program for those individuals who truly need it**

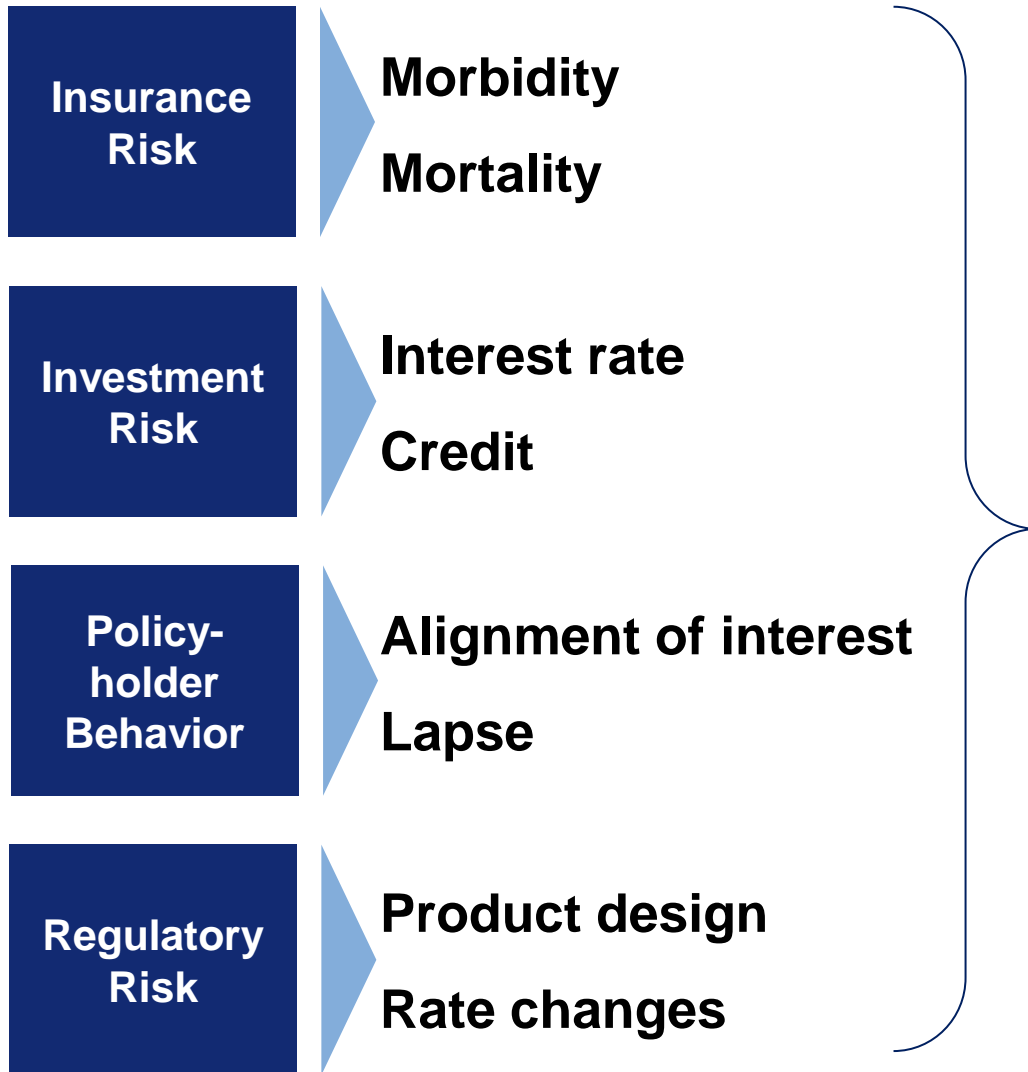
Middle Income

- **Requires simpler, more affordable products (“some insurance is better than no insurance”)**
- **Increased private insurance participation reduces reliance on public programs**

Upper Middle and High Income

- **Combination products & standalone LTC insurance**
- **Some participate (effective risk transfer) and others self-insure**

... And Lower The Product's Inherent Risk Profile



Product Design Goals

Lower the product's cost of capital, volatility, and price by developing a regulatory framework and new products that include ...

- (1) Appropriate carrier and policyholder risk sharing features
- (2) Annual, projection based re-rating methods

Idea: Catalyze LTC Market Expansion With The Tax Code

Allow Pre-tax Dollars Or Credits To Pay For Private LTC Insurance

Use pre-tax dollars to pay LTC premiums

Use existing 401K, IRA, 403B dollars to pay LTC premiums

Allow premiums to be paid with under section 125 cafeteria plans

Market Impact

Lower effective cost

Incentive and reminder to purchase

Carrier And Product Impact

No explicit impact

Idea: Leverage The Medicare Supplement Framework

Use Rule Making To Create A Medicare “LTC Supplement” Product

Benefits coordinated with Medicare and Medicare Supplement / Advantage plans

Annual rate management rules using loss ratios and projected experience

Underwriting similar to Medicare Supplement

Market Impact

Lower effective cost

Simpler product

Age based incentive to purchase

Carrier And Product Impact

Annual re-pricing lowers risk profile, cost of capital

Linkage to senior healthcare system has pluses and minuses

Idea: Improved Risk Sharing Product Designs

Change Risk Sharing Between Consumers, Carriers, & Government

Policyholder has more “first dollar” risk or “co-payment’ risk

Carriers form the middle risk layer up to a limit

Government continues to cover the third tier / catastrophic layer

Market Impact

Lower effective cost

Looks more like health insurance

Carrier And Product Impact

**Limited benefits and alignment of policyholder and carrier interests
lowers risk profile, cost of capital**

Idea: Subsidized Health Savings Accounts (HSA)

LTC HSAs Subsidized With Medicaid Dollars For Lower Incomes

Age based eligibility

Save pre-tax dollars to fund LTC

Use HSA dollars to pay LTC insurance premiums

Subsidize lower income HSA participants with Medicaid dollars

Market Impact

Promotes LTC planning, saving

Subsidies lower effective cost for lower income population

Age based incentive to purchase

Carrier And Product Impact

No explicit impact

Idea: Build Onto Existing State Partnership Programs

Expand Partnership Programs To Cover Any Type Of LTC

Expand partnership to the full spectrum of LTC solutions

Simplify partnership sales process and requirements

Market Impact

Increases incentive to purchase for market segments that value asset protection

Carrier And Product Impact

No explicit impact

Idea: Subsidize LTC Insurance Premiums

Subsidize LTC Insurance Premiums With Medicaid Dollars

Use Medicaid cash flows to subsidize LTC insurance premiums

Limited to middle market

Market Impact

Lower effective cost

Incentive and reminder to purchase

Carrier And Product Impact

No explicit impact

Other Ideas

There Are Other Ideas That Various Organizations Are Developing ...

Prevent or cure Alzheimer's Disease

Promote healthier living and wellness

Utilize health care exchanges

Risk sharing between carriers and government entities

Preferred provider networks

Home care technology enabled long term care solutions

Summary

Both carrier and government / regulator actions are required to address the future LTC product design challenges

Additional government actions will likely be needed to catalyze expansion to the middle market

Ultimately, a private insurance layer with a lower cost of capital product risk profile can reduce the government's role as the LTC payer of last resort, increase private LTC insurance carrier's ability to serve the middle market, and increase the efficiency of the overall LTC financing system

Questions