Alternative Products

Current LTC Alternatives: Short Term Care and Combination Products

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Short Term Care Insurance

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Short Term Care Insurance

Definition:

Any product which has benefits similar to LTC, designed to pay for nursing home, assisting living facility, and/or home health care, but where the period of payment is too short to qualify as LTC (i.e., generally less than one year).

Market for the product:

- Designed to cover conditions of a short-term nature (i.e., a “recovery” benefit)
- Designed to fill in the gaps of a LTC policy with longer elimination period or to fill in gaps of major medical policy
- Designed for person who can’t afford LTC coverage but might want help for some portion of the care
- Designed to give family time to cover care, while making decisions for more permanent care

Marketing:

- Often sold by Medicare Supplement agents
- Sale is more “impulse” than traditional LTC, usually requiring just one sales visit
- Usually sold to higher issue ages (85)

Current products on the market
have significantly different benefits:

- American Enterprise
- Bankers Life & Casualty
- Equitable Life & Casualty
- MedAmerica
- Medico
- Standard Life & Casualty
- United Commercial Travelers

Short Term Care Insurance

Medico policy:

- 0, 15, or 30 day EP
- Lifetime maximums of 120, 240, 360 days
- 2 of 6 ADL's or cognitive impairment trigger
- One time restoration benefit
- Pays for NH, ALF, HHC
- Optional survivorship and inflation riders

Bankers Life & Casualty Product:

- 0, 15 and 30 day EP
- Lifetime maximums of 90, 180, 270 and 360 days
- 2 of 6 ADL's or cognitive impairment or medically necessary
- Restoration of benefits (no limit)
- Pays for NH and ALF; optional HHC
- Optional inflation rider

American Republic Product:

- 0 or 20 day EP
- Lifetime maximum of 90, 180, and 360 days
- 2 of 7 ADL's or cognitive impairment
- One time restoration of benefits (facility only)
- Pays for NH and ALF
- Optional HHC with separate BP of 90 days, based on 1 of 7 ADL's or 2 of 6 IADL's or cognitive impairment
- Optional simple inflation rider

Standard Life Policy:

- 0 or 20 day EP
- Lifetime maximum of 180, 270 or 360 days
- 2 of 6 ADL's or cognitive impairment or medically necessary
- Restoration of benefits
- Pays for NH or ALF (at 75%)
- Optional simple or compound inflation

Equitable Policy:

- 0 or 20 day EP
- Lifetime maximum of 100, 150, 200 or 300 days
- 1 of 5 ADL's or cognitive impairment or medically necessary
- Restoration of benefits (lifetime maximum ~3 times)
- Pays for NH or ALF's
- Guaranteed purchase options (3 years)

UCT Policy:

- 0 or 20 day EP
- Lifetime maximum of 100, 200, or 360 days
- 2 of 6 ADL's or cognitive impairment
- Restoration of benefits up to lifetime maximum of 3 times BP
- Pays for NH or ALF; HHC optional
- Optional compound inflation or GPO every 3 years (15%)

<u>MedAmerica Policy</u>:

- 20, 30 or 60 day EP
- Lifetime maximum of 100, 200 or 360 days
- 2 of 6 ALD's or cognitive impairment
- One time restoration of benefits
- Pays for NH, ALF or HHC
- Optional simple inflation

General features of policies:

- Spouse discounts are fairly minimal (usually no more than 10%)
- Preferred risk discounts are often for non-smoker status only
- Waiver of premium, respite care, bed reservation, caregiver training – not consistently included

Short Term Care Insurance

Underwriting:

- Generally short form, yes/no application
- Underwriting is usually marketed as “simplified”
- Similar to some LTC multi-life applications or to some combo product short-form applications
- Generally include a pre-existing conditions exclusion

Pricing assumptions:

- Lapse rates:
  - Actual experience shows much higher voluntary lapse rates than standard LTC (assumptions generally around 4%)
  - Effect of benefit exhaust lapse rates must be modeled, if restoration of benefits provision is limited
- Expenses similar to MedSupp levels

Commission Rates:

- Generally high first year (70-85%), lower in years 2-10 (10-20%) and minimal in years 11+ (0-10%)

"Benefit richness" factors from LTC: do they apply?

Regulatory Environment:

- Policies not subject to LTC regulation, so state must review as “supplemental” insurance
- Not all states have a regulation that applies
- Minimum loss ratio standard is 50% in most states (rate stability does not apply)

Short Term Care Insurance

States where it may be difficult to get approval:

- California*
- Idaho
- Kansas
- Hawaii
- Maine*
- Massachusetts
- Minnesota
- New Jersey
- North Dakota
- South Dakota*
- Texas
- Vermont*
- Virginia*

*Have approved some short term care policies

States where regulations could differ:

- Requires a 70% loss ratio: New Hampshire
- Requires a 60% loss ratio below age 65 and 65% above age 65: New York
- Require a 60% loss ratio: Connecticut, Colorado, Kentucky, South Dakota, Washington
- Require a 55% loss ratio: Arizona, Indiana, Maryland, Tennessee, Vermont
- Florida: Short term care policies are filed under LTC regulation (and must meet all of the state's requirements)

Short Term Care Insurance

- Some companies create a short-term care version of the policy AND a long-term care version, and use the LTC version (365 day option only) in states with very high loss ratios or in states that don't allow short term care policies.
- Necessitates having 5% compound inflation and NFO riders.

Sample annual premium rates:

Sample Company, 30-day elimination period, $100/day, no inflation:				
Issue Age	Benefit Period			
	90 days	180 days	360 days	
55	121	181	362	
60	171	262	505	
65	252	393	740	
70	398	630	1,142	
75	630	1,013	1,805	

In summary:

- Niche product, generally sold by non-LTC agents to unique market
- Average premiums are low
- Policies could have simpler underwriting and more generous benefit triggers than standard LTC
- To date, rate increases have been minimal (primarily due to higher lapse rates)

Combination Products

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Agenda

- Product Overview
  - How do the Products Work and What do they Cover?
  - Why are these Products Gaining Traction in the Market?
- Underwriting
  - Life Insurance
  - Long Term Care
- Pricing Assumptions and Key Questions to Ask
  - Mortality
  - Morbidity
  - Lapse
- Regulatory Environment
- Conclusions

Product Overviews

How do the Products Work and What Do They Cover?

	Chronic Illness Acceleration Rider	LTCI Linked Benefit Riders
Benefit Type	▶ Acceleration of Life Insurance policy Death Benefit ▶ Typically classified as Life Insurance, ***not*** Individual Health Insurance ▶ Typically governed by Section 101(g) and Model Regulation 620; may decide to be governed by Section 7702B and the LTC Model Act	▶ Structured to pay benefits beyond the acceleration of the Life Insurance policy Death Benefit through a linked Extension of Benefit ("EOB") rider ▶ Product (*LTC Combo Products)* is a mix of Life Insurance (Acceleration component) and Individual LTC (EOB component) ▶ Governed by Section 7702B and the LTC Model Act ▶ Inflation protection must be offered on the Extension of Benefits rider ▶ Non-forfeiture benefit must be offered (1 month or sum of charges)
Benefit Triggers	▶ Must cover terminally ill and chronically ill individuals (typically a standard LTC 2/6 ADL Definition) ▶ In general, trigger condition must be ***permanent***	▶ Covers chronically ill individuals (typically a standard LTC 2/6 ADL Definition)

Product Overviews

How do the Products Work and What Do They Cover?

	Chronic Illness Acceleration Rider	LTCI Linked Benefit Riders
Benefit Structures	▶ Rider uses one of the following structures: • Discounted Death Benefit Approach • Lien Approach (Similar to a Policy Loan) • Indemnity Dollar-for-Dollar Face Reduction Approach	▶ Reimbursement Dollar-for-Dollar Face Reduction Approach ▶ Indemnity Dollar-for-Dollar Face Reduction Approach
Agent Licensing	▶ Life Insurance	▶ Life and Health Insurance

Product Overview

Why are these Products Gaining Traction in the Market?

Rate Type	Nursing Homes		Assisted Living Community	Home Health Care		Adult Day Services
	Semi-Private Rooms	Private Room		Home Health Aide	Homemaker	
	Daily		Monthly	Hourly		Daily
2012 Average Rate	$222	$248	$3,550	$21	$20	$70
2011 Average Rate	$214	$239	$3,477	$21	$19	$70
2010 Average Rate	$205	$229	$3,293	$21	$19	$70
$(%) Increase (2012 to 2011)	$8 (3.7%)	$9 (3.8%)	$73 (2.1%)	$0 (0%)	$1 (5.3%)	$0 (0%)
2012 Annual Rate	***$81,030***	***$90,520***	***$42,600***	***$21,840***	***$20,080***	***$18,200***

Key Statistics

- The median age of Nursing Home residents is 82.7 years old; 66% are Female
- Nearly half (46%) of Nursing Home residents die within 28 months of admission
- The average length of time since admission for Nursing Home residents is 27.5 months
- The median age for Assisted Living residents is 86.9 years old
- The median length of stay for Assisted Living Residents is 25.6 months
- 79% of Home Health Care Agencies provide Alzheimer’s training to their employees
- Nearly one-third (31%) of Home Health Care recipients die within 28 months of initial care

Sources: MetLife : *Market Survey of Long Term Care Costs – 2012; November 2012*
LifePlans : *Cognitive and Functional Disability Trends for Assisted Living Residents – March 2009*
CDC : *The National Nursing Home Survey: 2004 Overview – June 2009*

Product Overview

Why are Chronic Illness Acceleration Riders Gaining Traction in the Market?

- Typically an add-on feature to life insurance policy accelerating the policy's Face Amount
- Low or no embedded cost
- Products can help client leverage the assets they are allocating to LTC protection need
  - Acceleration Rider* : Ave. Premium: $6,597; Ave. Face Amount : $326,063
    On average could provide 4+ years of Semi-Private Nursing Home Care

Source : *LIMRA Individual Life Combination Products – 2012 Annual Review*
** - *Linked Benefit Averages based on Single Premium Products*

Product Overview

Why are Linked Benefit Riders Gaining Traction in the Market?

- Products market away from the most common objection to stand-alone LTC products: it is a "use it or lose it" sale:
  - Provides integrated Death Benefit and Cash Value protection features
  - Typically includes a Return of Premium Feature
  - Product can provide income, death benefits, or LTC coverage
- Products are generally marketed to those who have decided to self-fund their LTC needs
  - If the client does not own stand-alone LTC, they **ARE** self-funding
- Products can help client leverage the assets they are allocating to LTC protection need
  - Linked Benefit Rider** : Average Premium: $70,910
    Average Face Amount : $150,471
    Potential Additional EOB Coverage : $300,942
    Total Potential Coverage : $451,413 (**~6x Leverage**)
    Provides benefits over a minimum 6-year period

Source : *LIMRA Individual Life Combination Products – 2012 Annual Review*
** - *Linked Benefit Averages based on Single Premium Products*

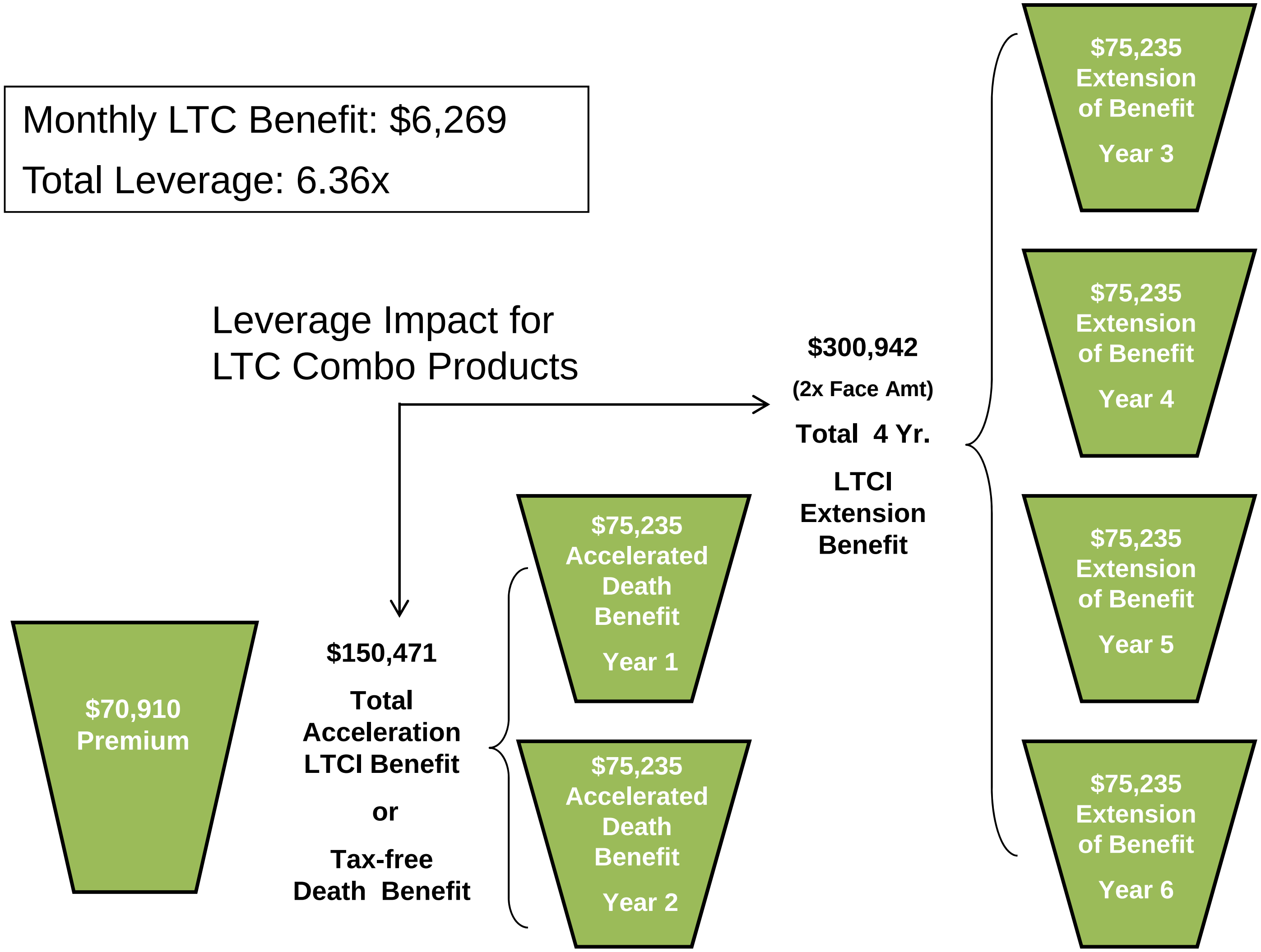
Product Overview

Why are these Products Gaining Traction in the Market?

Monthly LTC Benefit: $6,269

Total Leverage: 6.36x

Leverage Impact for
LTC Combo Products



Product Overview
Why are these Products Gaining Traction in the Market?

- Life / LTC Linked Benefit Products are not "Stand-alone LTC"
  - Combination of mortality and morbidity risks result in a natural hedge providing a degree of embedded risk management versus stand-alone LTC
  - The Extension Rider is the equivalent of a limited benefit LTC policy with a 2 or 3 year elimination period
  - Maximum benefit period is typically 6-7 years
  - Acceleration Rider must be exhausted before Extension Rider is used
  - This product is not available in the stand-alone LTC market and is more efficient given the "effective" elimination period

- Products have lower expected claims incidence
  - Policyholder must decide to use their own money first for the first 2 to 3 years of claims via the Acceleration Rider
  - Expected to result in lower LTC claims costs to insurance company

Product Overview

Why are these Products Gaining Traction in the Market?

- Total Premium : $2.4B
  - 10% growth over 2011
  - Represents 11% of Total Individual Life Premium
  - 86,000+ Policies Issued (19% growth)
  - Vast Majority are Linked Benefit Products
- Average Premium
  - Single Pay : $70,910 (Ave. Face - $150,471)
  - Recurring Premium : $6,597 (Ave. Face – $326,063)
- Product Mix (Policies Sold)
  - 24% Linked Benefit Products / 76% Acceleration Products
  - Universal Life is Dominating (85% of policies sold)
- Slow Movement Towards Flexible Payment Products
- Growth Expected over 2012

Sources: *LIMRA Individual Life Combination Products – 2012 Annual Review*

- Chronic Illness Acceleration Riders
  - Life underwriting follows current guidelines for life product
  - LTC Underwriting
    - Upfront Method
      - Additional questions related to Activities of Daily Living and possible Cognitive Impairment testing
      - Nothing done at claim submission
      - Typical for "Indemnity" riders
    - Back-End Method
      - Underwrite policy holder at time of claim submission to determine life expectancy based on current condition
      - Typical for "Discounted Death Benefit" riders

Underwriting

Underwriting Package – LTCI Linked Benefit Products

- LTCI Linked Benefit Products
  - Simplified Issue life underwriting and LTC underwriting:
    - Tele-Underwriting
    - Medical Information Bureau Screen
    - Prescription Drug Screen
    - Motor Vehicle Report
    - Cognitive Testing (e.g. MCAS)
    - Typically no APS Reports
  - Market demands a streamlined underwriting process to facilitate the “simplified” sales process

Major Pricing Assumptions

- Three Major Assumptions Need to be Considered:
  - Mortality
  - Morbidity
  - Lapse

- Each Plays a Critical Role in the Development of Expected Claims

- Considerations for Each Assumption:
  - Underwriting
  - Product Design and Marketing
  - Policy Size
  - Overlap with Other Products
  - Target Market

Major Assumptions
Profiles

- **Mortality Profile**
  - Total Population Mortality
  - Active Life Mortality
  - Disabled Life Mortality
- **Morbidity Profile**
  - Incidence Rates
  - Termination Rates
  - Underwriting Selection Factors
  - Salvage factors
- **Lapse Profile**
  - Due to Interplay Between Mortality and Morbidity Assumptions, Lapse is a Key Factor

Key Questions to Ask
Mortality Assumption

- Underwriting
  - Are there additional underwriting requirements (cognitive testing, prescription drug checks, motor vehicle reports, etc.) and questions on the application due to the addition of the rider?
  - What impact does this have on the mortality profile of the base product?
  - Do the maximum issue ages of the product change?
  - What is the source of the Disabled Life Mortality table? Is it aligned properly with the business being sold?
  - How will the Active Life Mortality assumption be developed?
- Product Design and Marketing
  - Does the addition of the rider change the expected level of anti-selection in the product?
  - Are the lapse rates expected to change with the addition of the rider impacting mortality deterioration?
  - Is there a new simplified sales process? Will this attract more unhealthy lives?
  - Does the addition of the rider encourage more short-pay, asset accumulation sales?

Key Questions to Ask

Mortality Assumption

- Policy Size
  - Does the addition of the rider change the expected distribution of business by band?
  - What is the maximum face amount policy that the rider will be added to? How does this change the overall mortality profile?
- Overlap with Other Products
  - What products will the rider be added to?
  - Does this determination drive certain segments of population to alternative products adjusting the risk profile of multiple products in the portfolio?
  - Can the rider be added after issue? What impact would that have on the base product mortality profile?
- Target Market
  - Will the addition of the rider attract a different population to the base product (i.e. Sex, Socio-Economic, etc.)? What impact does this have on the mortality profile of the base product?

Key Questions to Ask
Morbidity Assumption

- Underwriting
  - What information will be gathered in the rider underwriting (i.e. Tele-Underwriting, Medical Information, Bureau Screen, Prescription Drug Screen, Motor Vehicle Report, Cognitive Testing, APS Reports, etc.)?
  - Has a "Field Underwriting" guide been established with a series of knock-out questions for the rider?
  - How long is the expected LTC underwriting selection period?
  - How will underwriting selection factors be developed (i.e. Age, Sex, Policy Duration, Band, Class, Marital Status, etc.)?
  - What is the maximum sub-standard table that will be issued?

- Policy Size
  - What is the maximum face amount the rider will be added to?
  - What is the maximum amount per month that can be accelerated?
  - Are the rider maximums in-line with HIPAA limits?
  - Can acceleration amounts exceed the HIPAA limit?

Key Questions to Ask
Morbidity Assumption

- Product Design and Marketing
  - Does the rider provide reimbursement or indemnity benefits?
  - What are the benefit triggers?
  - Over what period of time does the rider accelerate benefits?
  - What is the elimination period for the benefits? Is it the same for all eligible benefits?
  - Is the product tax qualified?
  - Will a licensed health care practitioner certify benefit eligibility?
  - What will be the criteria for establishing eligibility requirements for any international coverages?
  - For reimbursement benefits, what is the appropriate amount of salvage to factor in?
  - Who will be handling claims processing?

Key Questions to Ask
Lapse Assumption

- Product Design and Marketing
  - Does the addition of the rider change the expected lapse rates of the base product?
  - Will there be any expected lapses for policies "on-claim"?
  - Are there any "return of premium" features included in the design that will impact lapse rates?

Key Questions to Ask

- Assumption Development is More Complicated than a Typical Life Product
- Developing an Understanding of the Interplay Between the Assumptions is Critical
  - What Combination of Assumptions Produces "Poor" Results?
  - What Combination of Assumptions Produces "Good" Results?

LTC Regulatory Environment

- Rate Increase Requests Dominate Regulatory Arena
- States Often not Approving Actuarially Justified Increases Due to Political Pressure
- Different Treatment of Rate Increases by State
- NAIC and Industry Working on New Rate Stability Provisions
  - Improve Rate Increase Process and Add More Transparency for Policyholders
- States Reacting to Filings for Gender-Based Rates
  - No Clear Direction - Some Prohibiting and Some Approving
- Life/LTC Hybrid Products Gaining Greater Acceptance with Regulators

Conclusions
The Products Have Been Successful

- Both the Chronic Illness Acceleration Riders and LTCI Linked Benefit Products offer a unique way for insurance companies to differentiate themselves in today's market
- Products fill a distinct client need as baby-boomers continue to age and lack long-term care coverage
- Products provide a multi-faceted solution in comparison to the stand-alone LTC market which has been declining sharply
- The major risks underlying the products can be mitigated by solid policy / product design, underwriting, claims management processes, and newly designed reinsurance structures
- Assumption Development is "Non-Trivial"; Spend Time Asking Questions
- These products can help an insurance company significantly grow the top and bottom lines while effectively managing their overall risk profile