

Private Long Term Care Insurance in the US: Adapt or Die?

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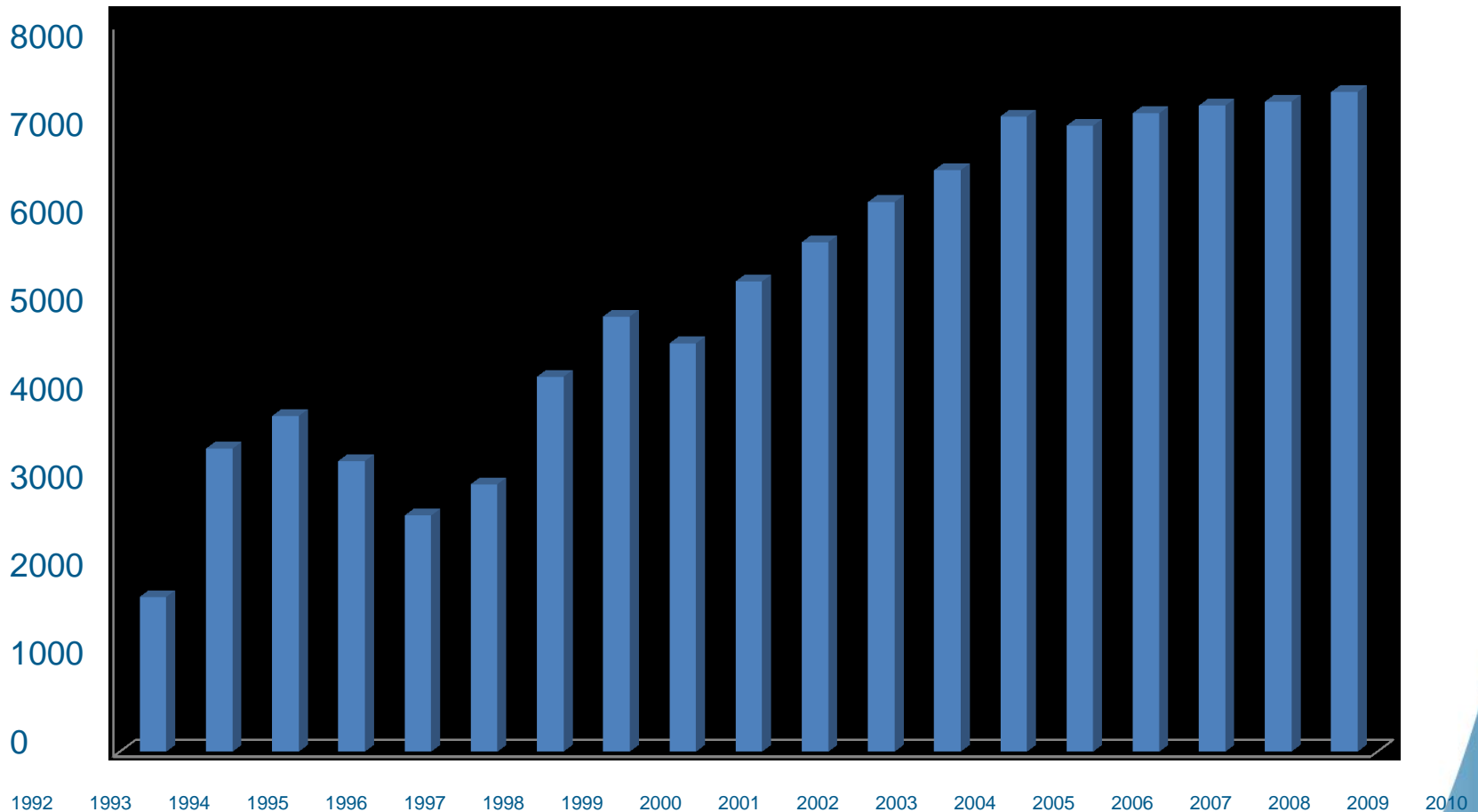
Would like to acknowledge Pam Doty and Marc Cohen

The Market is in Crisis

- ▶ Companies are dropping out of the market
- ▶ Underwriting getting stricter
- ▶ Premium increases
- ▶ Clientele narrowing

- ▶ A death spiral?

Number of insured lives has been relatively flat since 2005



Source: LifePlans data

Companies dropping out of the market

- ▶ In 2002, there were **102** companies selling LTCI
- ▶ In 2013, there were about **12**

Why?

(Based on Cohen survey of 26 companies)

- ▶ Profit
 - ▶ 69% cited product performance--not hitting profit objectives
 - ▶ 54% cited High capital requirements
- ▶ Risk
 - ▶ 62% were concern about their ability to get rate increases if necessary
 - ▶ 50% had re-assessed the risk of product and market
 - ▶ 42% cited a lack of confidence in their ability to manage risk
- ▶ Regulation and public policy were infrequently mentioned

Profile of purchasers has changed:

younger, wealthier, better educated

Characteristic	2010	2005	2000	1995	1990
Average Age (years)	59	61	65	69	68
% > 70	8%	16%	40%	49%	42%
% Married	69%	73%	70%	62%	68%
Median Income	\$87,500	\$62,500	\$42,500	\$30,000	\$27,000
% > \$50,000	77%	71%	42%	20%	21%
Median Assets	\$325,000	\$275,000	\$225,000	\$87,500	N.A.
% > \$75,000	82%	83%	77%	49%	53%
% College Educated	71%	61%	47%	36%	33%
% Employed	69%	71%	35%	23%	N.A.

Premiums rising

(Annual)

Year	2000	2010
Age		
55-64	\$1,213	\$2,255
65 to 69	\$1,487	\$2,759
70 to 74	\$1,829	\$3,294
75+	\$2,581	\$3,949

But... *plans are also more comprehensive*

Rise of the group plan

- ▶ In 2000, **75%** of policies were in the individual market and **25%** in the group market
- ▶ In 2010, **58%** of policies were in the individual market and **42%** in the group market
- ▶ (How many among federal employees?)

Public policy efforts

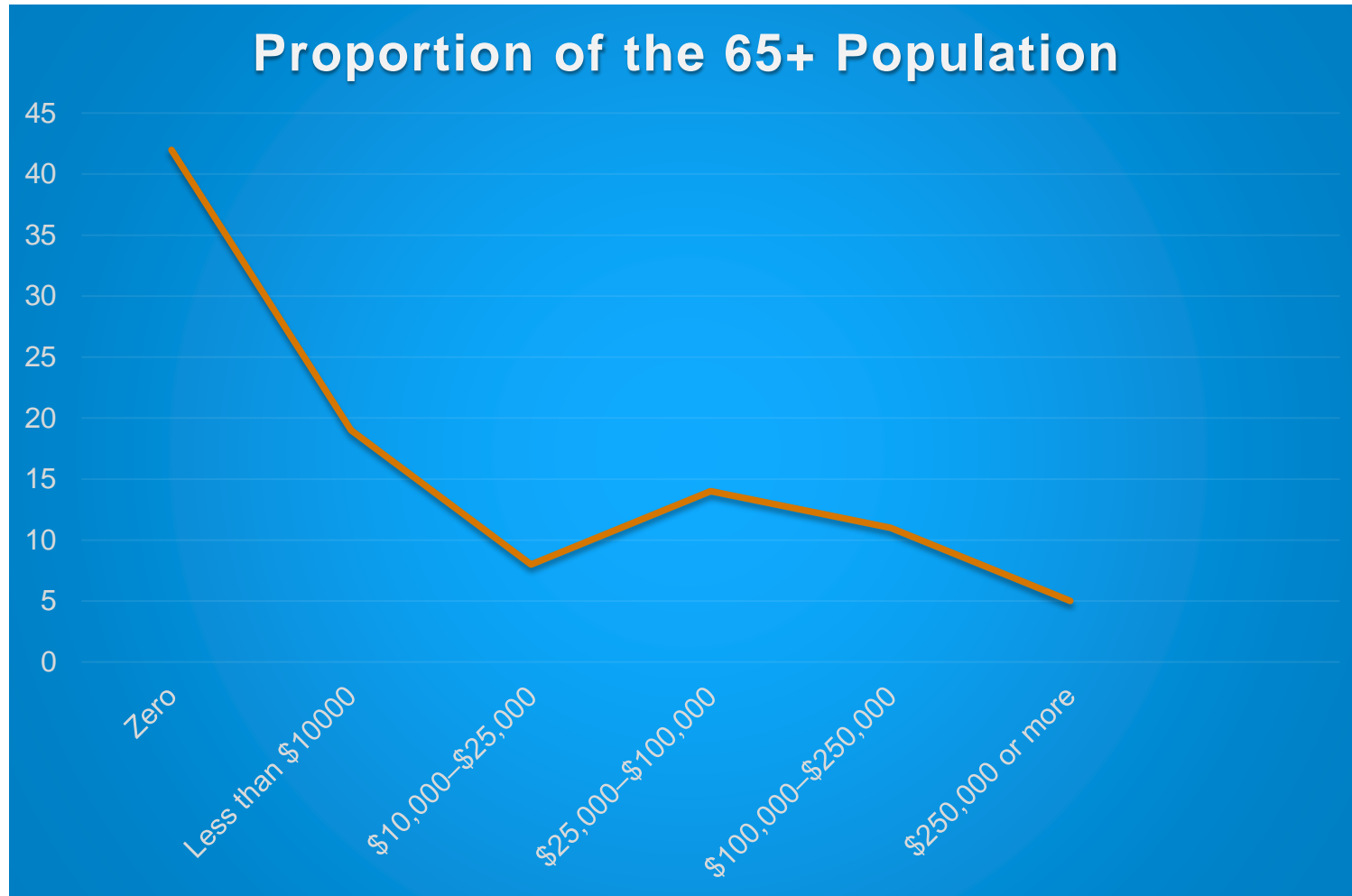
- ▶ Moderate success in some areas:
 - ▶ **LTC Partnership**
 - ▶ **Federal employees**
 - ▶ **Other large employers**

- ▶ Utter failure in others:
 - ▶ **CLASS**
 - ▶ **LTC Commission**
 - ▶ **Land This Plane**

A new strategy is needed

- ▶ Private LTCI in the US cannot be all things to all people
- ▶ Currently, it combines front-end and catastrophic coverage, affordable only to a small proportion of the population
 - ▶ **Front-end = costs of persons with significant disability who can be supported at home (the majority of people with LTC needs)**
 - ▶ **Catastrophic = long term (3-5 years) nursing home costs (The roughly 16% of people whose costs will exceed 100K in 2005)**
- ▶ Moreover, it operates on a reimbursement model that is administratively complex and actuarially risky (must estimate future LTC costs)
- ▶ Product simplification is key (for both sellers and buyers)
 - ▶ **Cash benefits?**

The Long Tail of risk for LTC expenses



Source: Kemper et al – note that data are from 2005

Public-private split

- ▶ The UK has chosen to combine universal catastrophic for all with means-tested front-end supports
- ▶ France provides universal (albeit income-adjusted) coverage for front-end coverage with means-tested coverage for catastrophic costs.

Have private LTC insurers in the US finally reached their tipping point?

- ▶ Land This Plane
 - ▶ Polled a diverse group of actuaries, public policy experts, regulators, and insurance industry executives
 - ▶ Found agreement re complementary roles of private and public
- ▶ Evidence of some leaders in insurance discussing collaboration with public sector at state level
- ▶ Frank et al recommending product simplification and standardization