

Nevada Division of Insurance Public Education Session on Long Term Care

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LONG TERM CARE

The Cost of Long Term Care Services

Nevada 2016 Cost of Care Statistics – Annual Costs

- Home Health Care
 - Homemaker Services: \$48,620
 - Home Health Aid: \$48,048
- Adult Day Care \$18,720
- Assisted Living Facility \$36,600
- Nursing Home
 - Semi-Private Room: \$95,265
 - Private Room: \$103,773

Who Pays for Long Term Care?

- Personal Resources (Self-Funding)
 - Family, Assets (Home), Investments
- Medicare – Skilled Nursing Facility Benefit
 - Only Covers Skilled Care in an Approved Facility
 - Only Covers Up to 100 Days -- High Co-Insurance After 20 Days
 - No Assisted Living Facility Coverage
- Medicare Supplement Policies
 - Generally Do Not Pay For Long Term Care
- Health Insurance
 - Is Not Intended to Pay For Long Term Care
- Medicaid
 - Covers Nursing Home and Some Home/Community-Based Care
 - Qualification Requires Very Low Income and Significantly Spending Down Assets
- Long Term Care Insurance

Consumer Attitudes

- Biggest fears about retirement¹:
 - 11%: Will have too much debt
 - 18%: Won't be able to afford daily expenses
 - 23%: Exhaust savings
 - 28%: High medical (LTC) expenses
- Most are aware of Medicaid as a safety net, but worry that it won't allow an acceptable lifestyle

¹Source: Bankrate.com Money Pulse Survey, Feb. 18, 2015

Consumer Attitudes

- Private financing of LTC is strongly preferred¹
 - 59% agree that individuals should be responsible
 - 66% agree that owning private LTC insurance would give them peace of mind
 - 51% don't trust the government to run an LTC insurance plan
- Knowledge of LTC costs and risks is relatively low¹
 - Most greatly underestimate the chance of needing LTC
 - 20% can correctly estimate costs in their state
 - 44% have “other priorities” for money other than LTC insurance

¹Source: *2014 Survey of Long-Term Care Awareness and Planning*, U.S. Dept. of HHS

LONG TERM CARE INSURANCE

LTC Insurance Benefits

UPON DISABILITY

**MANY POLICIES ALSO
REQUIRE RECEIPT OF LTC
SERVICES**

**LTC
INSURANCE
PAYS OUT...**



**AT
HOME**



**ASSISTED
LIVING
FACILITY**



**NURSING
HOME**

LTC Insurance Benefits

Not a lump sum:

a benefit is paid each day up to a maximum benefit per day



Limit on total amount paid out

Many policies do not pay:

- During the entire disability episode
- Until the disability lasts a certain amount of time

By law, policies must cover the insured for his entire life.

- Option to automatically increase benefits each year is offered at purchase, so they keep up with increases in costs of care



The Chance of Using Benefits

LOW chance of use



MARRIED
COUPLES



RIGHT AFTER
PURCHASING
COVERAGE

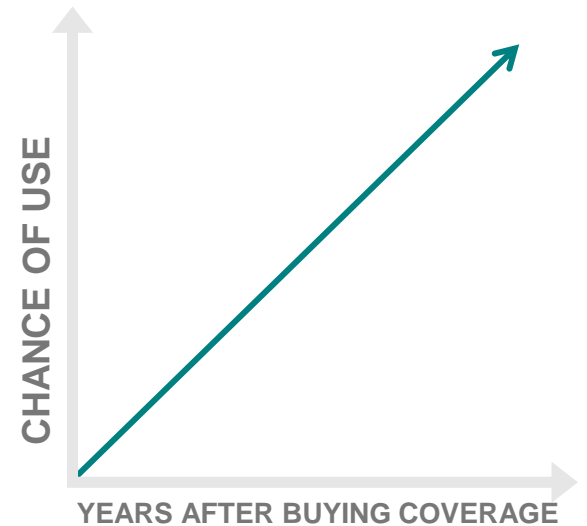
HIGH chance of
use



INDIVIDUALS
LIVING ALONE



+ AGE

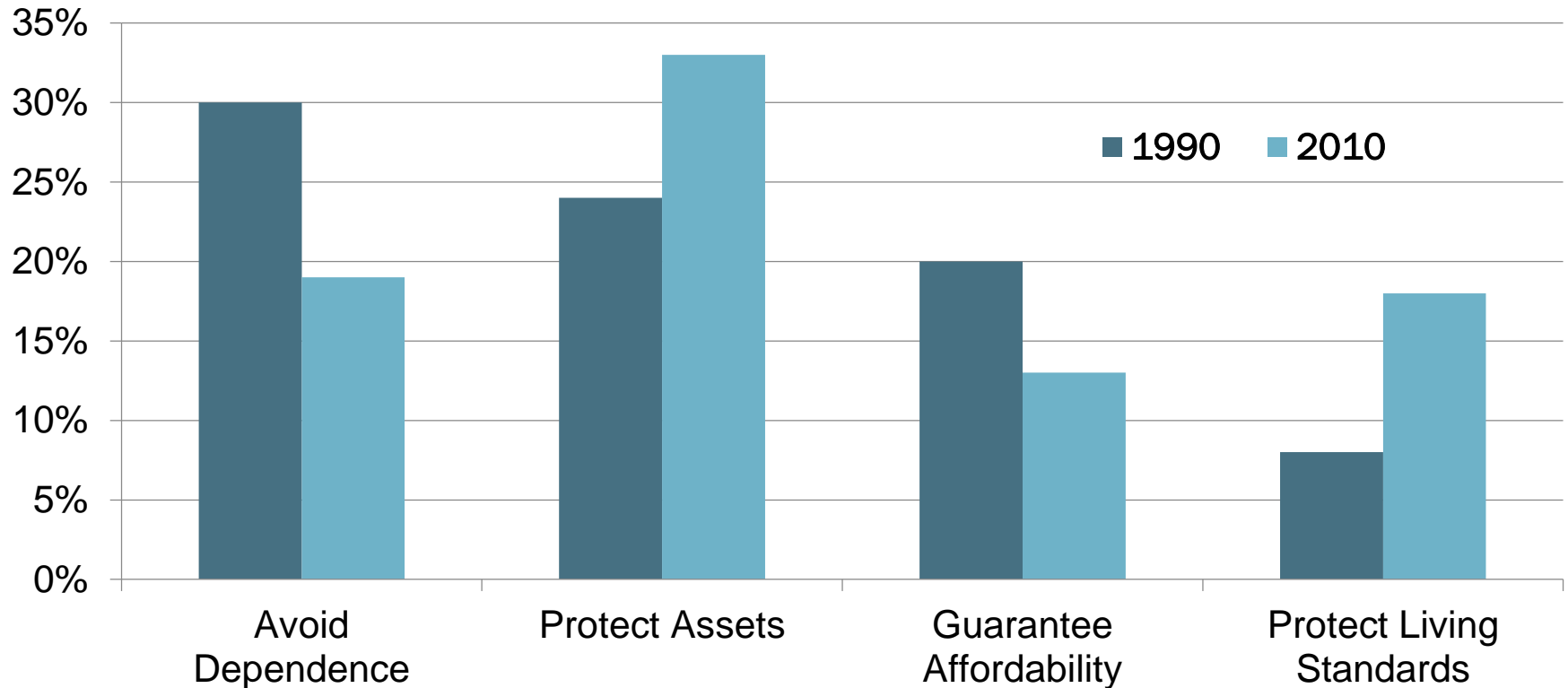


The Chance of Using Benefits

- About 70% of people who reach age 65 are expected to need some form of long-term care at least once in their lifetime
- About 11 million Americans of all ages require long-term care, but only 1.4 million live in nursing homes
- About 35% of people who reach age 65 are expected to enter a nursing home at least once in their lifetime. Of those who are in a nursing home, the average stay is a year
- From 2015 to 2055, the number of people aged 85 and older will almost triple from over 6 million to over 18 million. This growth is certain to lead to an increase in the number of people who need long-term care
- Women need care longer than men: 3.7 years vs. 2.2 years

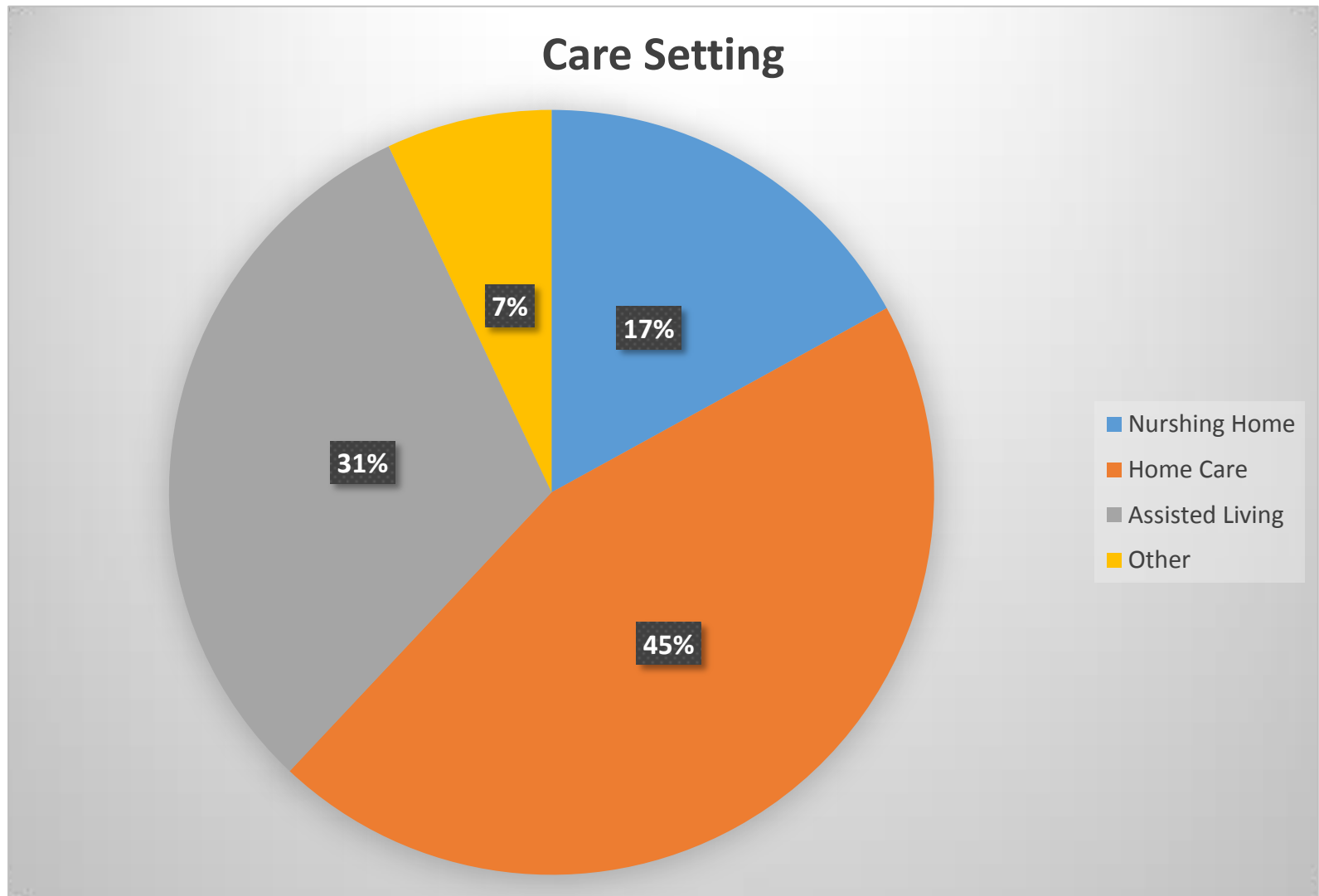
Buyer Statistics

Reason for Buying LTCI



Motivations shifted to preserving assets and lifestyle

2015 – 2016 Claimants by Care Setting



Source: LifePlans Claimant Satisfaction Study, September 2016

LONG TERM CARE POLICY BASICS

Long Term Care Insurance Policy Types

- Individual vs. Group (Employer) Policies
 - Underwriting Considerations, Coverage Portability
- State/Federal Government and Association Policies
- The Nevada Partnership for Long Term Care
 - Partnership-Qualified Plans Operate Like Traditional Plans
 - Provide Protection from Medicaid Asset Spend-Down Requirements on a Dollar-For-Dollar Basis
 - Policies Must Provide Inflation Protection of Benefits Based on Your Age
- Tax-Qualified Policies
 - Federal Tax Advantages
 - Premiums May Be Deducted from Itemized Health Expenses
 - Benefits Are Not Taxed As Income
 - Certain Policy Requirements Apply Regarding Coverage

How Benefits Are Paid

- Reimbursement vs. Indemnity Policies
- Shared Coverage Plans vs. Individual Coverage
- Benefit Eligibility Triggers
 - Loss of Activities of Daily Living (2 or More)
 - Cognitive Impairment
- Elimination Periods
- Facility Eligibility
 - Know What Kind of Facilities Are Covered By Your Policy – Eligibility Determination Will Be Made

How Benefits Are Paid

- Your Coverage Selections Include:
 - Daily or Monthly Benefit Amount
 - Elimination Period
 - Inflation Protection
 - Policy Duration
 - Non-Forfeiture
- To Calculate Your Total Pool of Benefits:
 - $\text{DBA} \times 365 \text{ days} \times \text{Policy Duration}$
- For Example, a \$150/Day, 4-Year Policy Would Have a Total Benefit Pool of $150 \times 365 \times 4 = \$219,000$
 - The Daily Benefit and Pool Will Grow if Inflation Protection Has Been Added
 - Claims are Subject to the Maximum Daily or Monthly Benefit Amounts

Considerations When Buying LTC Insurance

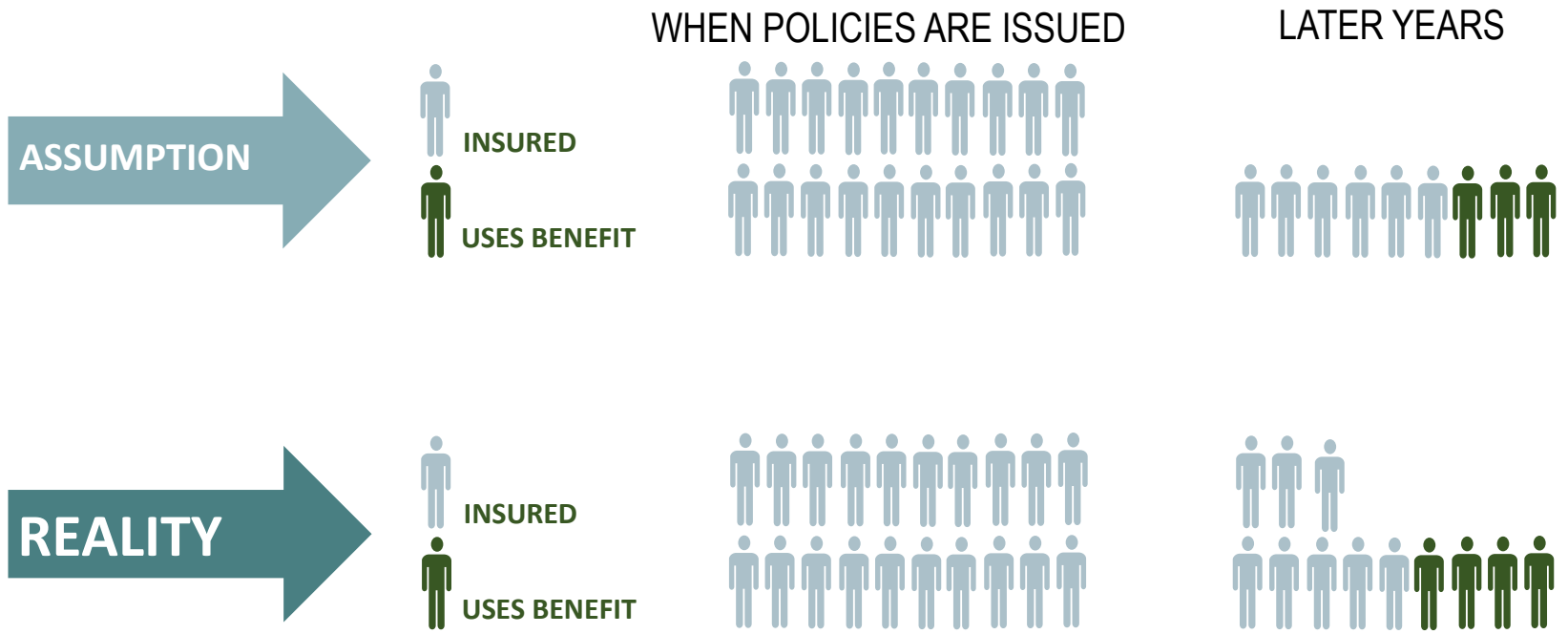
- Policies are Underwritten – There Are Advantages to Buying At Younger Ages and When in Good Health
- Policy Cost – Only Consider LTC Insurance If You Can Afford The Premiums
 - Example: 50 years old, \$200/day, 4-years, 5% compound inflation -- \$4,349 annual premium
- Research Companies, Including Their Rate Increase History

Rate Increases

Withdrawals From the Savings Account

The amount of funds withdrawn is dependent on 3 key things:

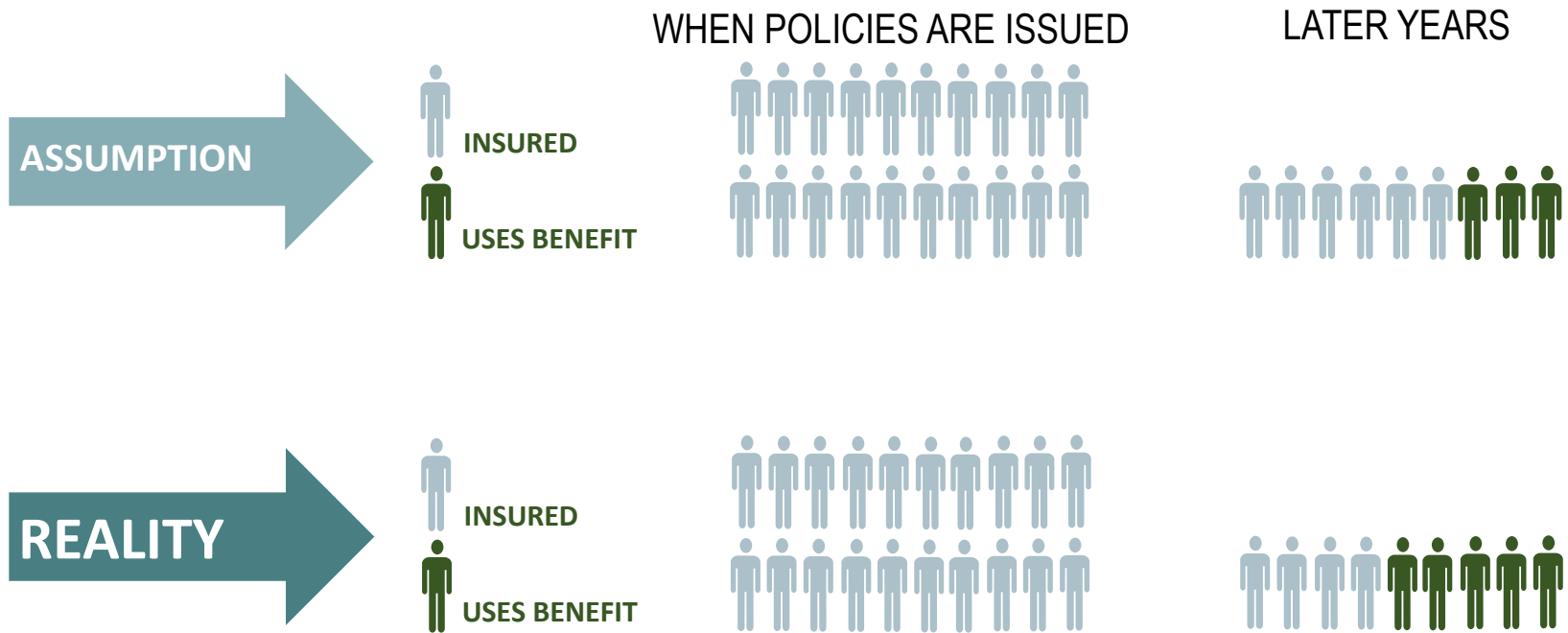
1 The number of people that keep their policies up to the point when benefits begin to be paid



More people have kept their policies than originally expected.
People are also living longer than originally expected.

Withdrawals From the Savings Account

2 Of the people who keep their policies, the number of people who use benefits



Industry experience has been mixed compared to what was originally thought.

Withdrawals From the Savings Account

3

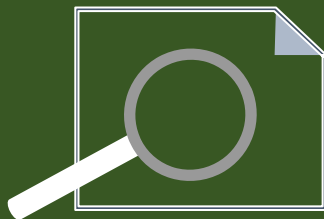
Amount that is paid out to people who use benefits

Recall that a **lump sum benefit** is not paid when a person becomes disabled.



Amount paid **will not be known in advance.**

This amount paid is estimated based on past observations.



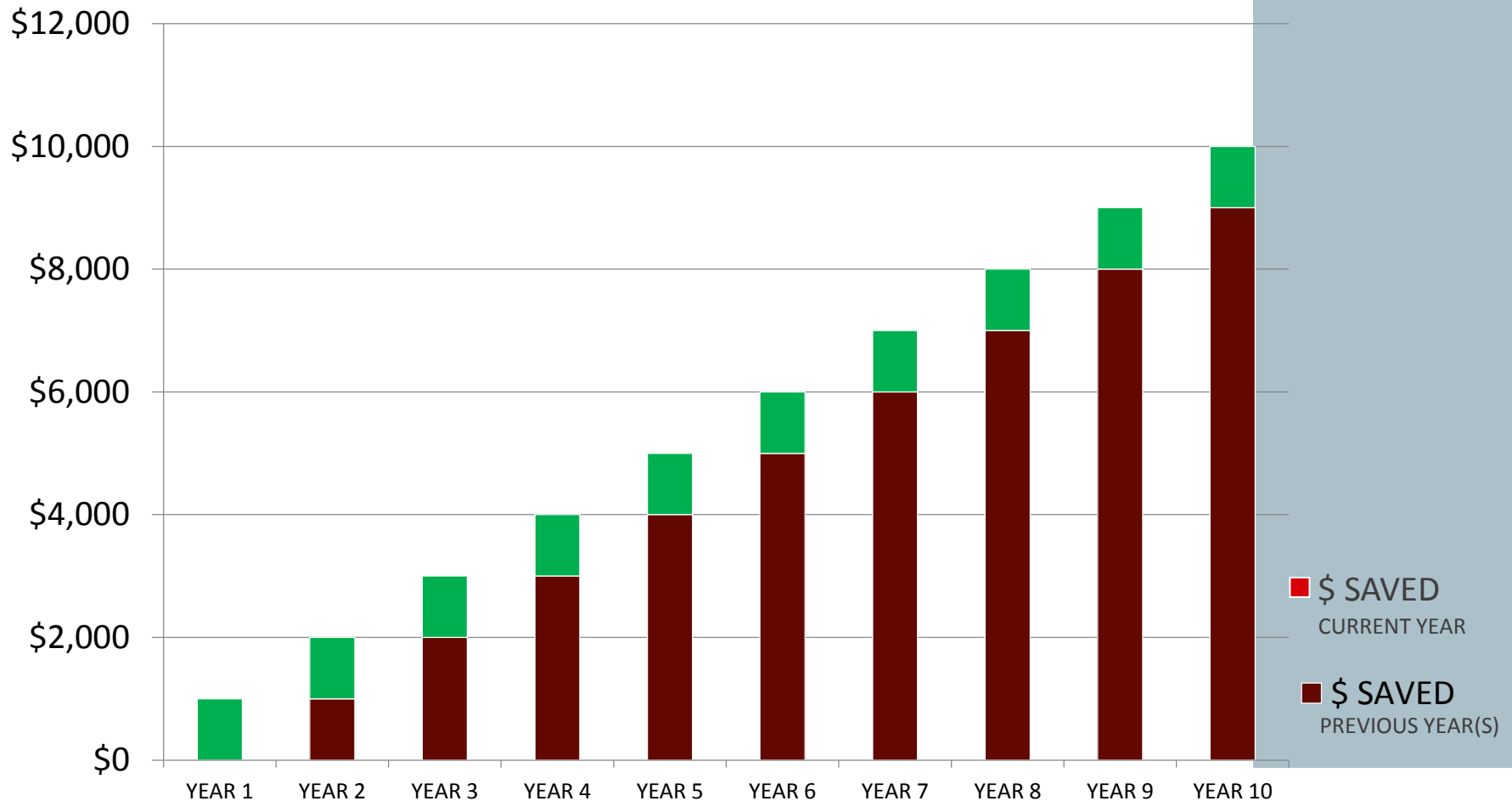
It will depend on:

- Number of days of disability
- Intensity of care
- Cost of care

Length of time in nursing homes has not changed much. **However, more people are receiving care in assisted living facilities, where people live longer.** This has led to higher benefits being paid.

A Simple Savings Plan Example

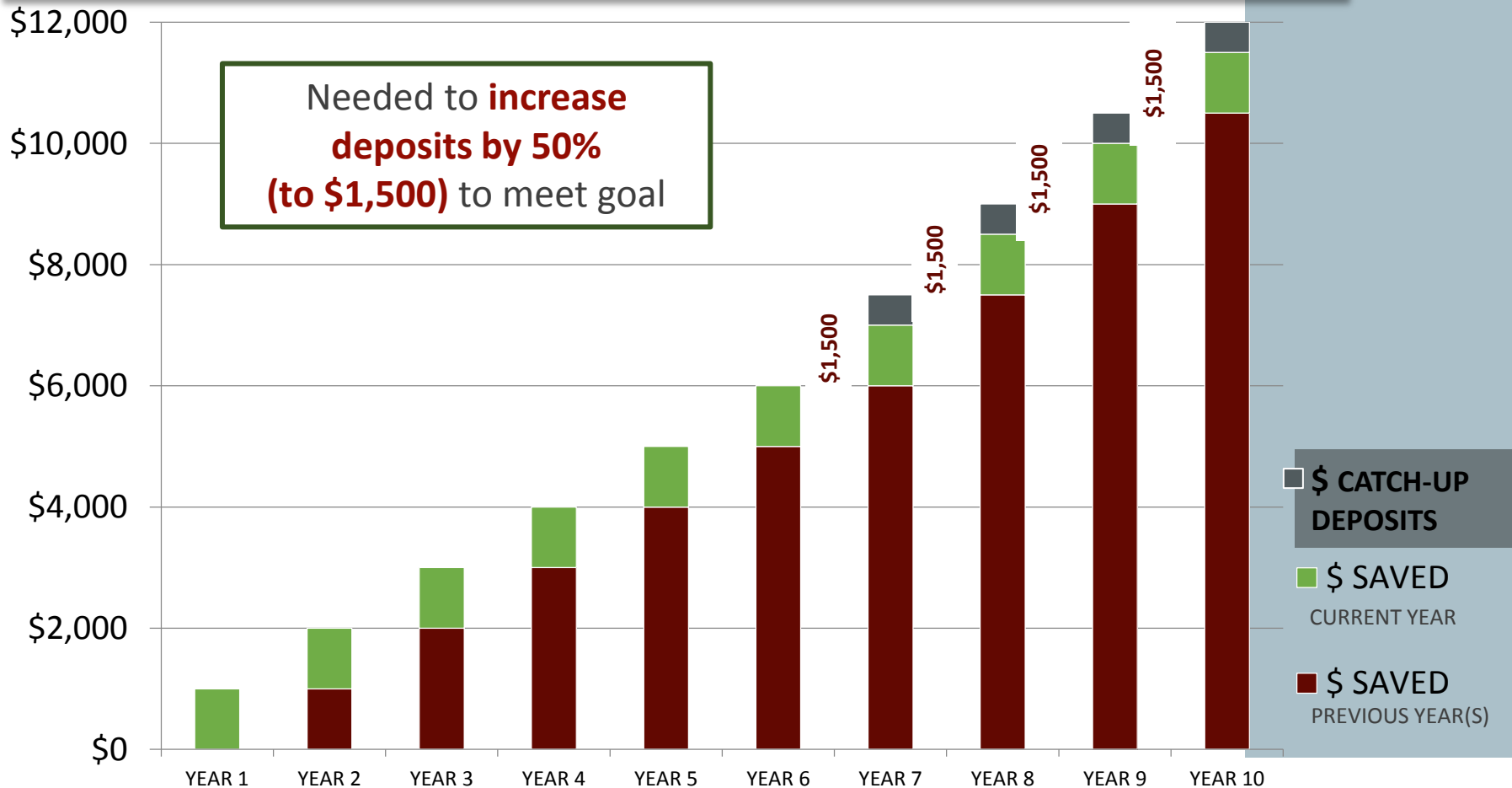
ORIGINAL GOAL: \$10,000 in 10 years



When Not Enough is Saved: Need to “Catch-Up”

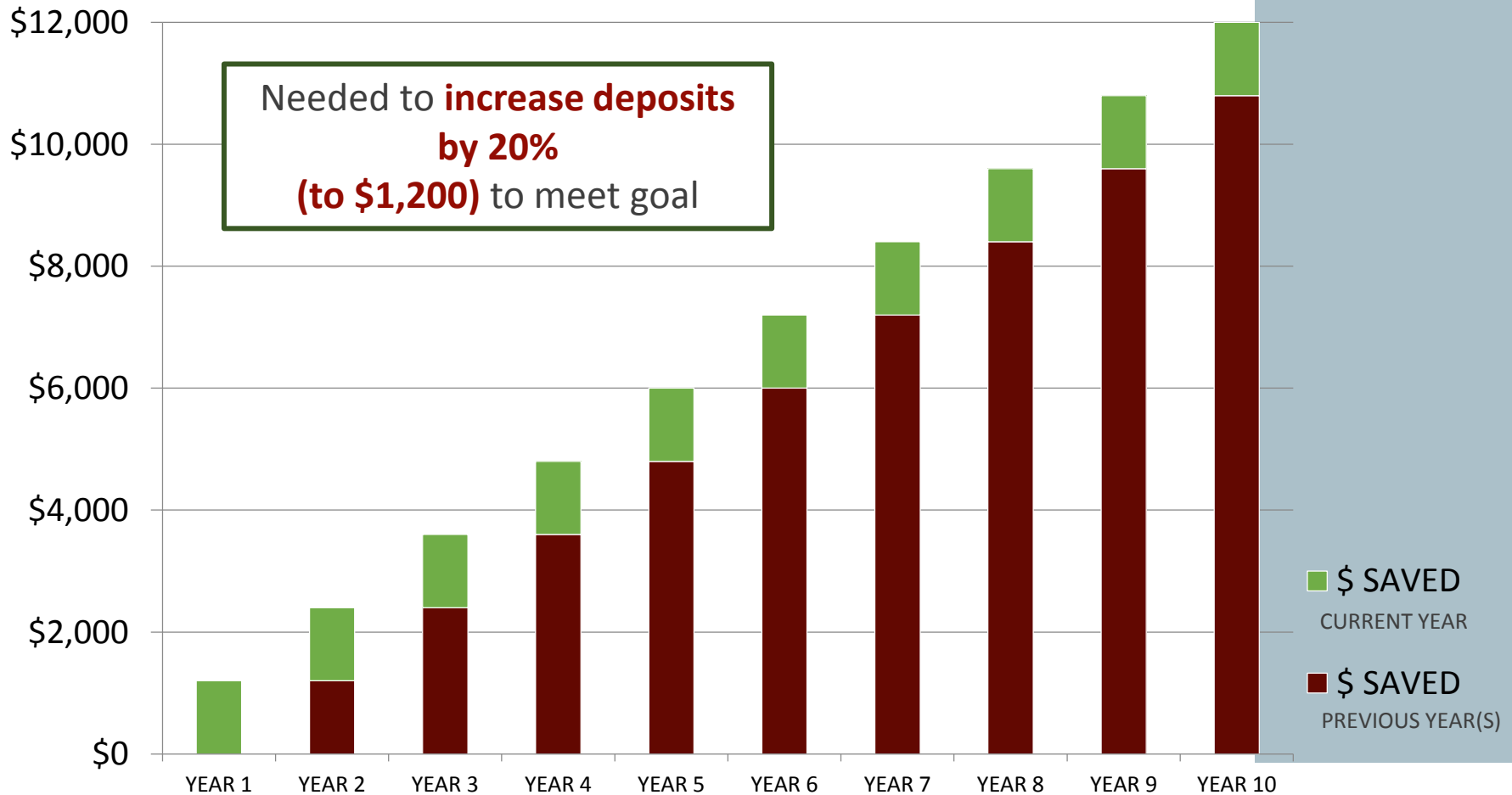
ORIGINAL GOAL: \$10,000 in 10 years

NEW GOAL AFTER 6TH YEAR: \$12,000 is needed by 10th year



With Hindsight

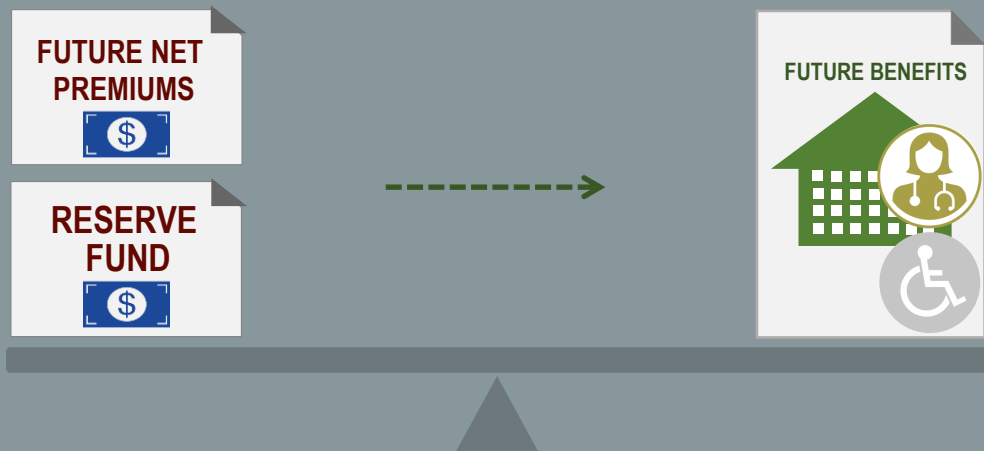
THE "HINDSIGHT" DEPOSIT SCHEDULE



Application of the Simple Example: How it Should Work

In this example of a block of LTC policies, at a given point in time:
reserve fund (savings account) + future net premiums (deposits)
are enough to pay for **future benefits (withdrawals)**

**EXAMPLE: NET PREMIUMS (DEPOSITS) AND THE RESERVE FUND
ARE ENOUGH TO FUND FUTURE BENEFITS**



This model shows
the two sides in
balance.

Out of Balance

In this example of a block of LTC policies, at a given point in time:
reserve fund (savings account) + future net premiums (deposits)
are **NOT** enough to pay for **future benefits (withdrawals)**

EXAMPLE: EXPECTED FUTURE WITHDRAWALS OUTWEIGH THE DEPOSIT SCHEDULE

**FUTURE NET
PREMIUMS**
\$

**RESERVE
FUND**
\$

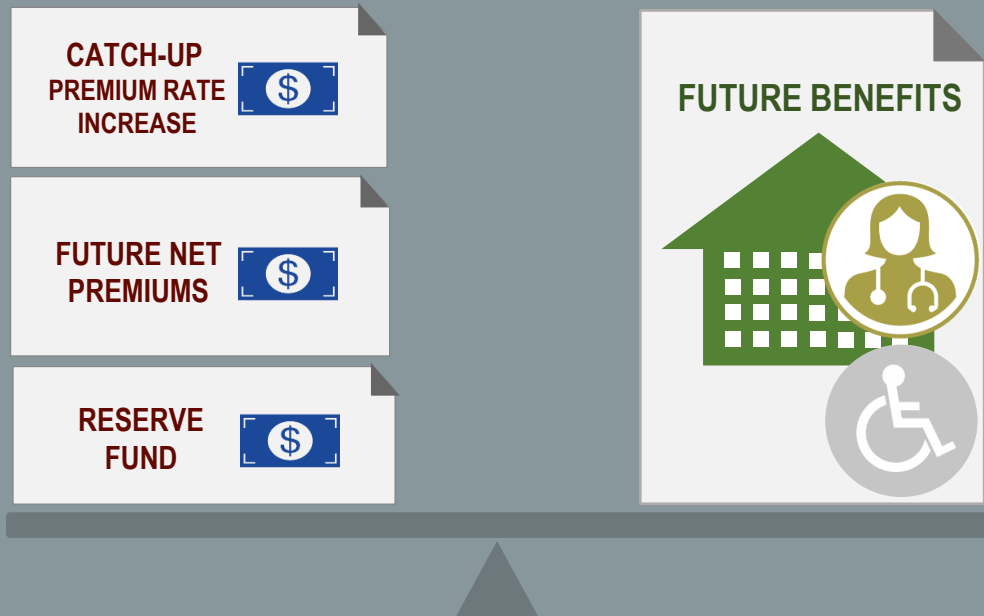


The two sides are out of balance. There will not be enough money to fund benefit payments.

Restore Balance: Premium Rate Increase

In this example of a block of LTC policies, a premium rate increase is implemented to restore balance: **reserve fund (savings account) + future premiums with rate increases (deposits)** are enough to pay for **future benefits (withdrawals)**

EXAMPLE: PREMIUM RATE INCREASES RESTORE BALANCE

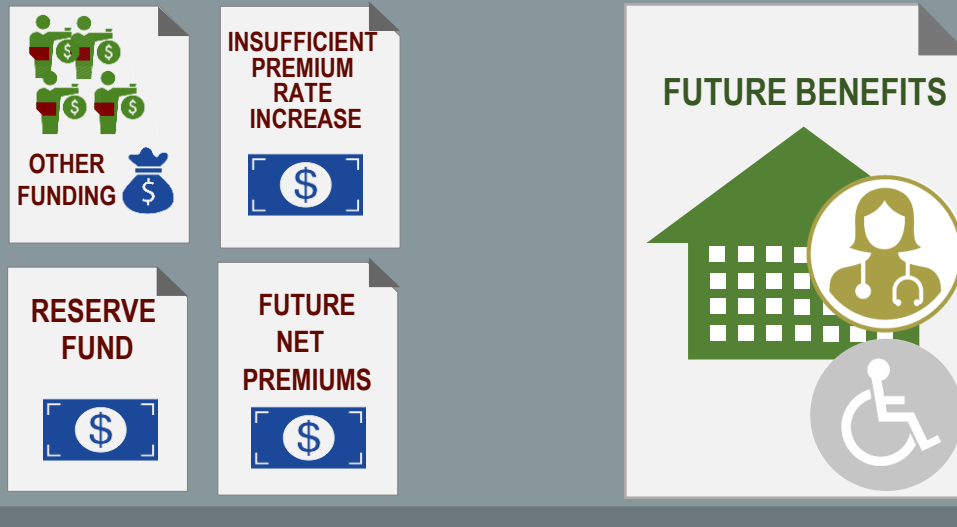


Balance is restored via rate increases.

Restore Balance: Include Other Funding

In this example, a premium rate increase is implemented, but it is not enough to restore balance: **reserve fund (savings account) + future premiums with rate increases (deposits) are NOT enough to pay for future benefits (withdrawals)**

EXAMPLE: BALANCE RESTORED THROUGH OTHER FUNDS



Other funding must come from:

Company surplus: one-time “deposit” which is ultimately from other policyholders or shareholders.

Other policyholders: Taken as needed from premiums of other policyholders

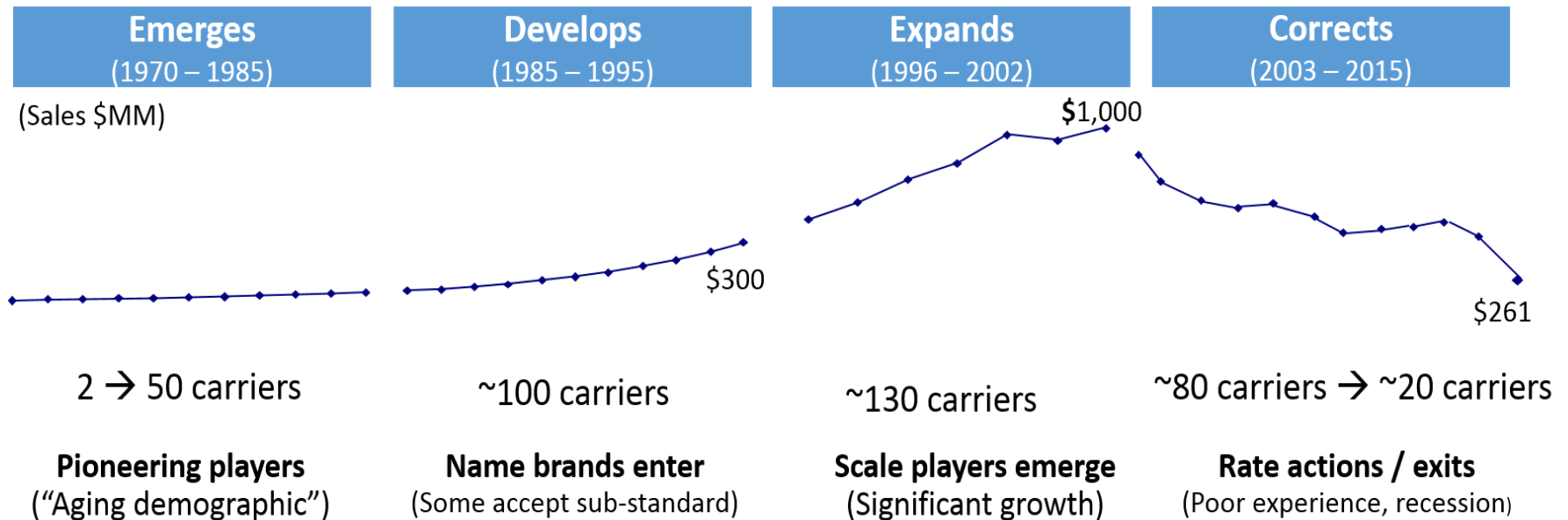
Rate Increases -- Policyholder Options

- Take Full Increase, Reduce Benefits, Lapse Coverage (Not Recommended)
- Benefit Reductions (Including Daily Benefit, Inflation, and Duration) May Mitigate Some or All of the Premium Increase
- Companies May Agree to Phase-In Increases
- Many Companies Offering Voluntary, Limited Non-Forfeiture (Equal to Premiums Paid Less Claims)
- Contact Your Company to Understand All of Your Available Options

MARKET TRENDS

Long Term Care Market Evolution

The LTC insurance market is 1/3 of its size at the peak of the market with the number of direct writers decreasing 85% in the past 15 years.



SOURCE: Data on LTC sales and number of carriers selling are based on AHIP, LIMRA, LifePlans sales surveys and NAIC Experience Reports, 1990-2015.

A Shift To Hybrid Products

Hybrid products comprised

15%

of new life insurance premium issued in
(up from 12% in 2014)

2015

200,000+ policies
and **\$3.1 bn** issued in **2015**

Compared to **104,000** policies
and **\$261m** in the stand-alone
LTC market

Carriers are entering
the hybrid LTC
market as opposed to
continued exits in the
stand-alone LTC market

Sources: LIMRA's 2015 Individual LTC Sales and 2015 Life Combo Sales Surveys

Innovative Products Under Consideration

- Cash Value LTC Products
- Flexible Premium Structures
- Transitional Benefits that Change with Insurable Need
- Short Duration Products (Short Term Care)
- “Limited Condition” Policies to Meet Market Need of Those Totally Uninsurable Today
- Allow Use of Qualified Retirement Funds to Purchase LTCI Without Early Withdrawal Tax Penalties

Regulatory Change Will Be Necessary

Looking forward

- NAIC LTC Innovation Subgroup focused on three tasks:
 1. Advocate for federal tax policy changes to encourage private LTC financing
 2. Increase awareness of hybrids and other existing alternative products
 3. New section of the LTC model regulation to enable Savings Based LTC products
- Third Generation of LTCL products is likely to emerge

Alternative products

Using existing insurance products to fund LTC in new ways...

- **Care Annuity (UK version of LTC insurance)**
 - Underwritten SPIA issued to newly disabled persons
 - Health conditions result in higher monthly benefit payments than traditional SPIAs
 - Removes longevity risk for the annuitant
 - Large segment of 80+ year-olds have enough assets to fund LTC in this manner
- **Life settlements**
 - Assign death benefit from existing life policy
 - Greater value than cash value; can annuitize for life

Savings Based LTCI

- Would require modifications to NAIC LTC Models
- Shifts investment, lapse and future uncertainty risks to consumer
- Resembles universal life, but with LTC as the insured event:
 - Cash / account values
 - Flexible premiums
 - Annual cost of insurance charges
 - Investment income credits
 - Modular coverage
 - Payout options at LTC event (e.g., annuitize)

QUESTIONS?