LTC Market Forecast

Matt Morton FSA MAAA
Senior Consulting Actuary

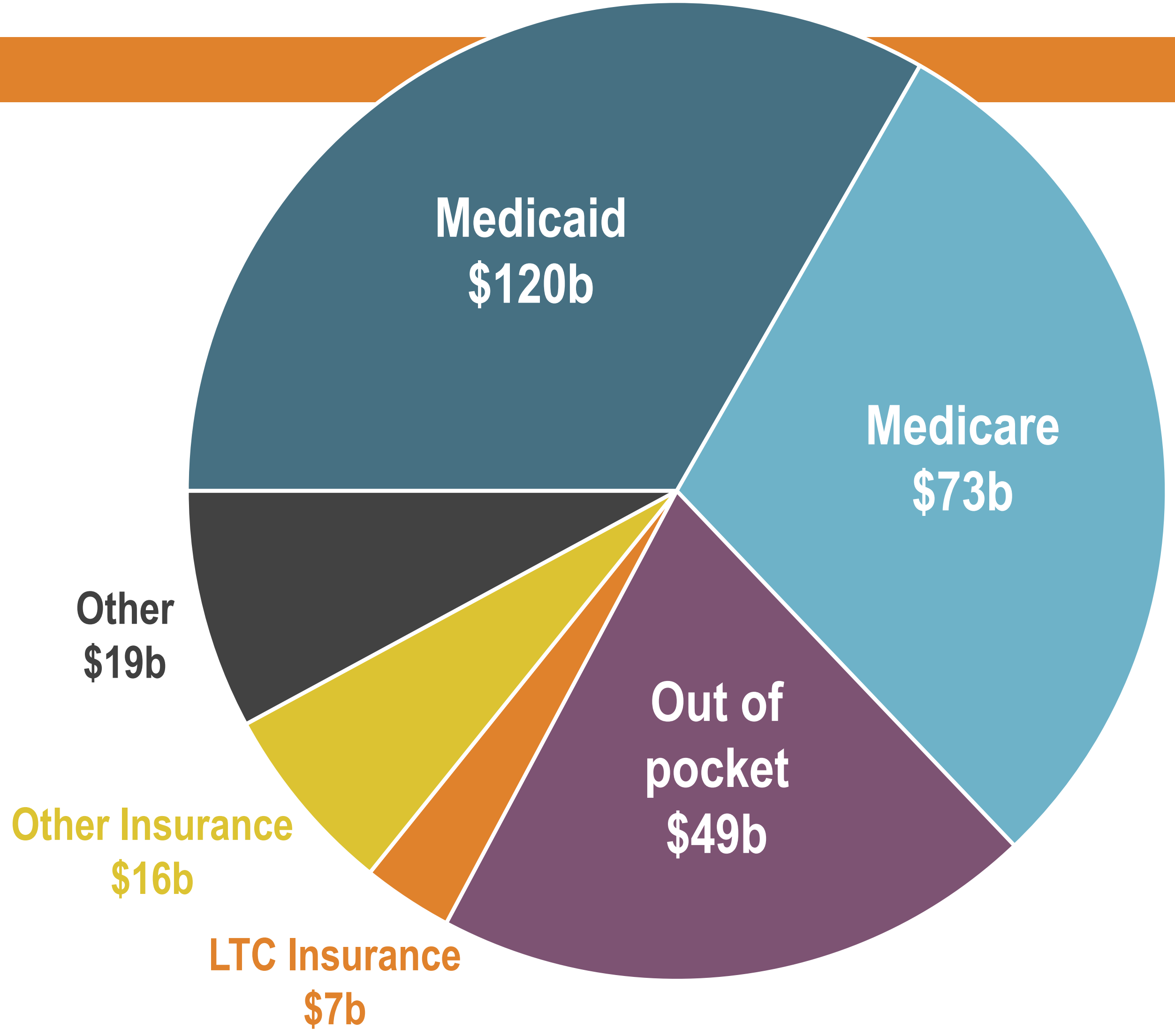
November 2017

Overview

- Role of Private LTC Insurance
- LTC 1.0: Traditional LTC Products
- LTC 2.0: Hybrid Products
- LTC 3.0: Push for Innovation

ROLE OF PRIVATE LTC INSURANCE

Funding of US LTC expenses



- US spending on LTC was $239 billion in 2014
- 63% was funded by Medicare and Medicaid
- 20% from direct out of pocket spending
- Only 3% from private LTC insurance
  - 7 million insureds out of 86 million age 55+

Source: National Health Expenditure (NHE) Amounts by Type of Expenditure and Source of Funds: Calendar Years 1965-2014, Centers for Medicare & Medicaid Services

The need for private LTC insurance

Asset spend-down most common funding scheme (savings exhausted or moved via loopholes to quality for Medicaid).

Social programs meant for the poor are being used to fund middle class due to lack of LTC planning.

LTC insurance prevents this strain on public resources while allowing individuals to preserve assets, access higher quality care.

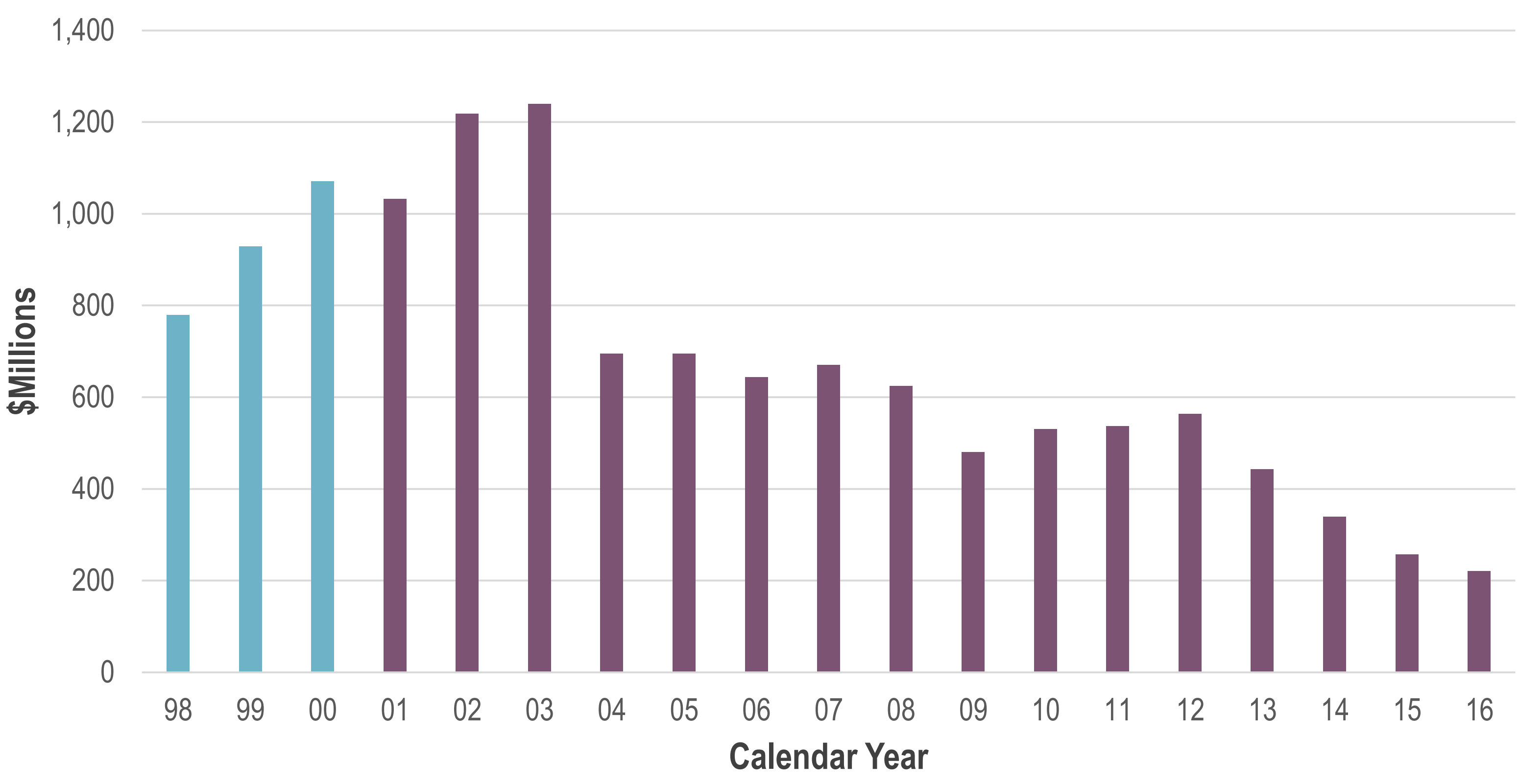
LTC 1.0: TRADITIONAL LTC PRODUCTS

Evolution of LTC insurance industry

1970s	1980s	1990s	2000s
EMERGES	**DEVELOPS**	**GROWTH**	**CORRECTS**
Products emerge	Name brands enter	Significant growth	Market contraction
2 – 50 carriers	100 carriers	Over 125 carriers	~12 carriers in 2017
Nursing Home benefits	Adds Home Care	Adds ALF	Fully integrated care

▶ BENEFIT TRIGGERS GET TIGHTER ▶ UNDERWRITING GETS TIGHTER ▶ BENEFITS SHRINK

Sales volumes by new annual premium issued



Early success!
20%+ growth during the 1990s

Short-lived – Sales began to decline in 2001 (after netting out 2002-03 FEP enrollment)

Source: 1999 – 2017 *Broker World Surveys*

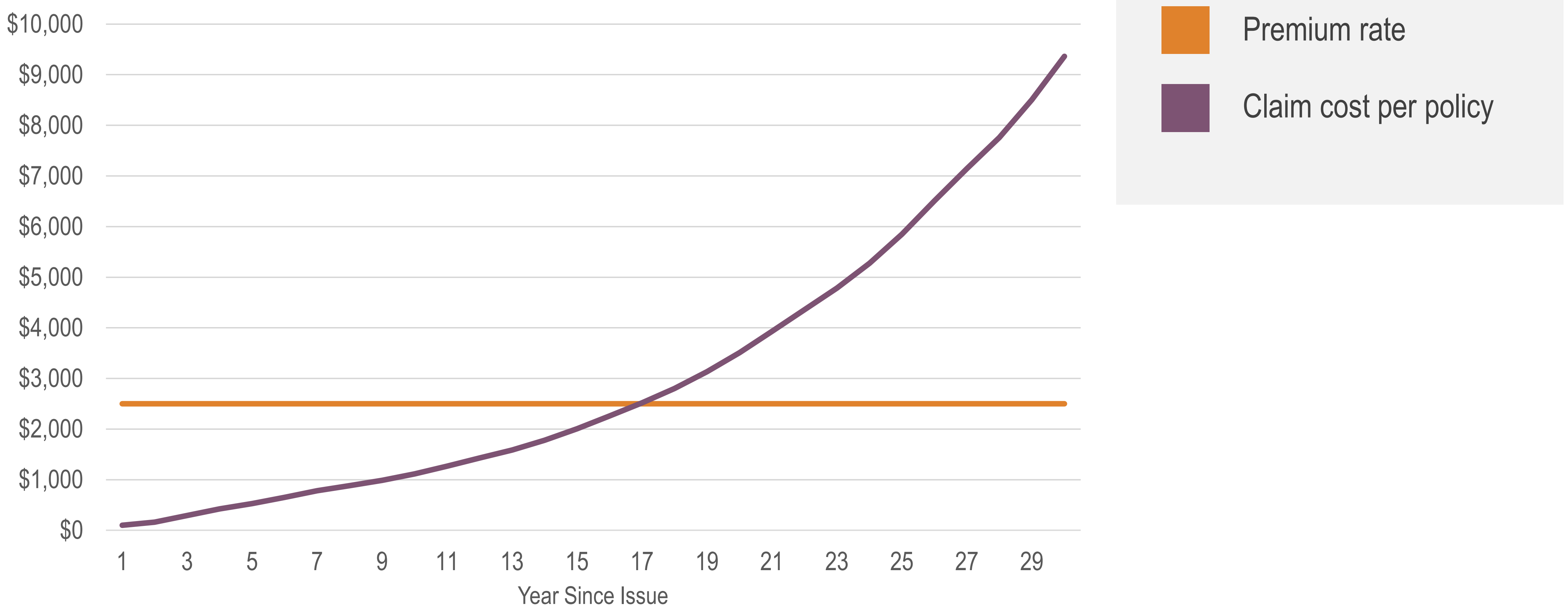
Yesterday's assumption, today's reality

	THEN	NOW
Low Interest Rates	8%	3%
Low Lapse Rates	5%	1%
Increasing Longevity	1980 CSO	2012 IAM
Evolving Care Delivery	Nursing Home	Assisted Living Facility
Carrier Selling	100+	10
Distributors	45,000	2,000

- Higher claims costs vs. originally estimated
- Increasing capital pressure under NAIC RBC framework
- Administrative challenges with increasing claims volumes

- Regulatory uncertainty – political not actuarial
- Wary consumers – smart buy to risky buy

Level premium pre-funds an increasing cost



Four forces 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)

Key items to watch

- Actuarial assumptions used in reserve models remain aggressive
- Capital requirements at odds with economic risks
- Emerging experience on claims
- Asset/liability management difficult
- LTC spin-offs
- Diminishing LTC expertise within carriers
- How regulators handle ongoing request for rate increases
- Suitability of emerging acquirers

LTC insurance players today

INSURERS MARKETING LTC

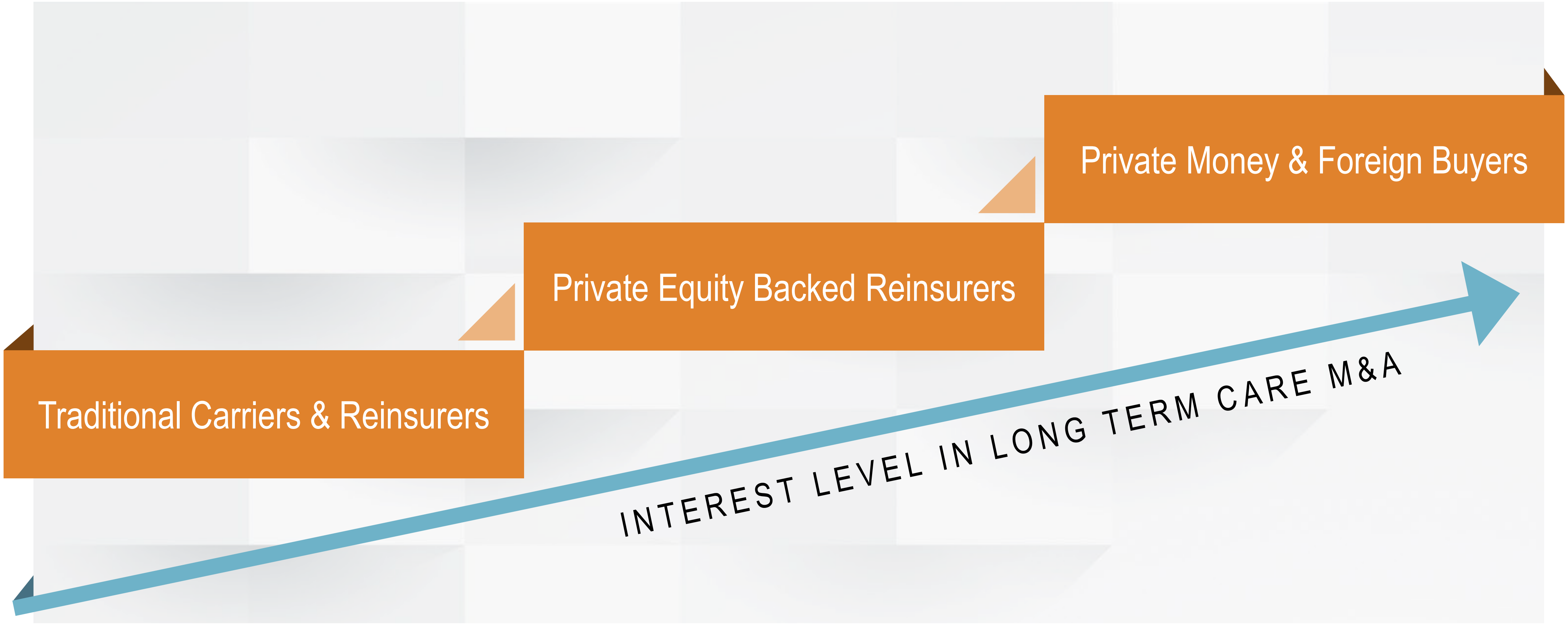
INSURERS WITH RUNOFF LTC

Sellers

UNIQUE CHALLENGES

- Ongoing and increasing strain on ROE
- Risk of future reserve adjustments
- Very specialized product management
- Claims volumes growing
- Lack of scale
- Distraction for management

Buyers


Private Money & Foreign Buyers
Private Equity Backed Reinsurers
Traditional Carriers & Reinsurers
INTEREST LEVEL IN LONG TERM CARE M&A

M&A deals completed

2012

Advantage Capital buys Ability Insurance

2014

Reinsurance of $590M reserves by Beechwood Re from CNO
Front Street Re acquires Ability Re
HC2 buys United Teachers and Continental General from American Financial

2015

Nassau Re acquires Universal American's traditional insurance business including LTC

2016

China Oceanwide commits to buy Genworth

Acquisition challenges

Price point

- Sellers reserving with optimistic future-state assumptions
- Buyers pricing with data-driven, historically proven assumptions
- Future premium rate increases assumed by sellers are often discounted by buyers

Difficult to completely off-load risk

- Assumption reinsurance almost impossible today
- Most transactions have been legal entity sales due to credit risk associated with an off-shore entity
- Indemnity reinsurance puts the focus on the counter-party
- Backlash risk associated with in-force management efforts

Can regulators get comfortable with new, alternative buyers?

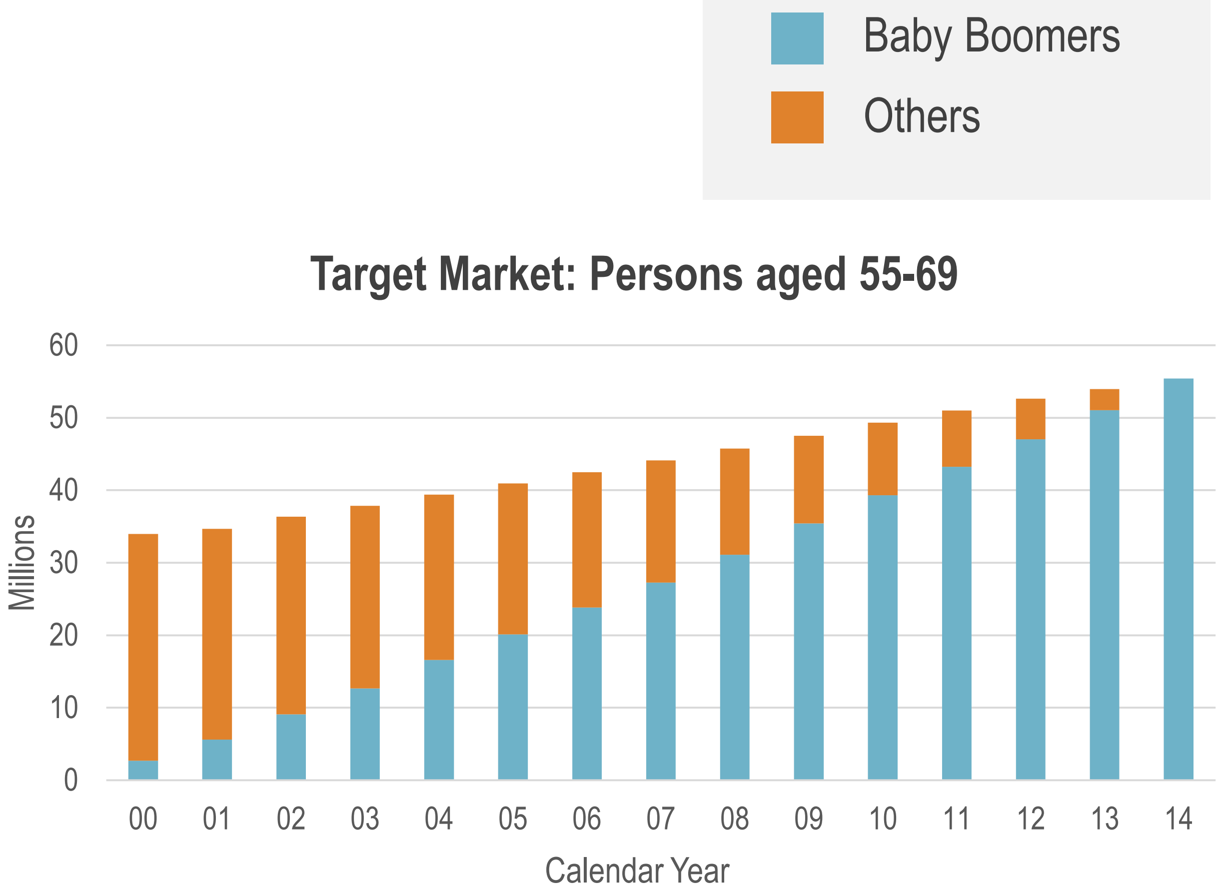
LTC 2.0: HYBRID PRODUCTS

A changing target market

Target market's generation turned over since the 1900s:

- Issue age 72 in 1995: born in 1923 (GI Generation)
- Issue age 59 in 2015: Born in 1956 (Baby Boomer)

New consumer attitudes—want immediate value, no time/patience for distribution, less interest in wealth transfer



Hybrid products

Life Insurance Hybrid

- Rider attached to any permanent life product
- Small percentage of face amount for LTC benefits available per month, insured can accelerate all or a portion of face amount

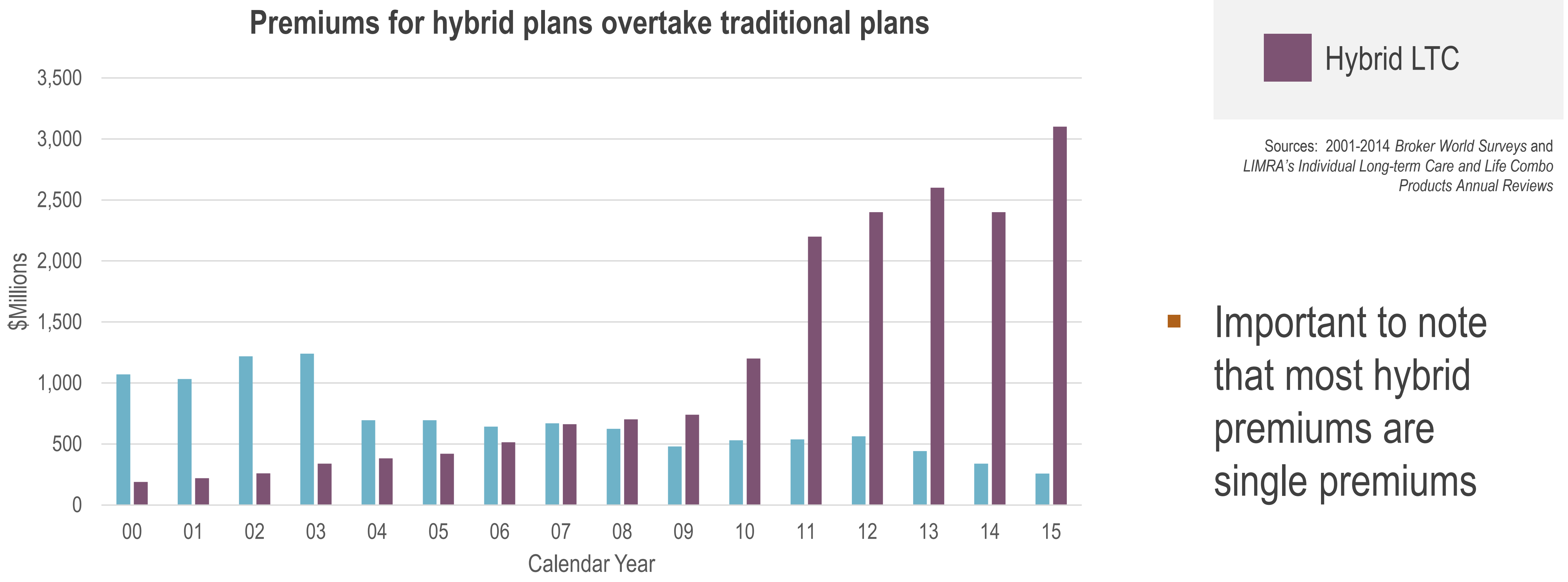
Deferred Annuity Hybrids

- Account value available for LTC benefit - reduced or no surrender charge
- Additional LTC benefit available after account value is exhausted

Immediate Annuity Hybrids

- Base monthly annuity benefit starts immediately for life
- Increases to a higher benefit while LTC eligibility is met

Hybrid vs. traditional LTCI growth



Sources: 2001-2014 *Broker World Surveys* and *LIMRA's Individual Long-term Care and Life Combo Products Annual Reviews*

- Important to note that most hybrid premiums are single premiums

Looking forward

Expect increased volume of hybrid sales via:

Target market expansion

- Historical focus on affluent market
- Companies are expanding to middle market via worksite and direct marketing channels

Distribution and marketing shift

- With some exception, hybrid sales are currently add-on options presented at the sale of life and annuity products
- Specialty distribution, focus on hybrids as a primary LTC financing solution, will likely emerge and greatly increase sales volumes

LTC 3.0: PUSH FOR INNOVATION

Emerging product concepts: Consumer desires

Remove the “use it or lose it” features

Allow flexibility when care is needed

Help reduce / control personal costs and risks

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 alternative products
3. New section of the LTC model regulation to enable savings based LTC products

Alternative products

Using existing insurance products to fund LTC products 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 annualize 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)

Possible public policy changes

Public/private risk sharing

- Universal coverage after a long elimination period (2 or 3 years)
- Private insurance can be purchased to provide earlier benefits or vice versa

Allow 401k to fund LTC / LTC insurance

- Without tax penalties, up to a maximum amount per year

Expand Medicare / Medigap to include more LTC

- Auto-enrollment with minor benefits mandatory; buy-ups voluntary
- Benefit vesting as a substitute for underwriting

Matt Morton FSA MAAA

Senior Consulting Actuary of LTCG

linkedin.com/in/MattMortonLTCG

Matt.Morton@LTCG.com

LTCG®

www.LTCG.com