

2018 SMP/SHIP

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What SHIPs Need to Know About Long Term Care Insurance

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The background of the slide is a dense, colorful pattern of interlocking puzzle pieces. The pieces are in various colors including red, yellow, green, blue, and grey, and each piece has a different fabric-like texture. The overall effect is a complex, multi-colored mosaic.

What SHIPs Need To Know About Long-Term Care and Long-Term Care Insurance

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Introduction

- The Silver Tsunami, a public policy dilemma
- Long-term care insurance
 - The basics
 - Suitability issues
 - SHIP's role
- Recent trends in the marketplace
 - Product evolution
 - Premiums increases
 - Insolvency and guaranty funds

Caring for the Aged: The Hidden Challenge

2018

Aging
population
of the
future

81 million



The Silver Tsunami

- **10,000** people turning 65 every day (2010 – 2030)
 - 81 million 65+ by 2030
- Projection: = **20%* of U.S. population by 2030**
 - **70% will need some long term care**
 - On average for 3 years
 - Shrinking ratio of working adults to aged
 - Existing worker shortage for long term care services
 - **More people are age 100+ in U.S. than any other country**
 - Increased by 44% between 2000 and 2014
 - » One Medigap insurer has 4,000 insureds age 100 or older

*<https://www.cdc.gov/nchs/data/databriefs/db233.htm>

Long-Term Care

An octopus of issues

Type of care

Dementia or functional impairment

Places of care

Home, community
Assisted living
Nursing home

Payment issues

Personal funds
Insurance
Reverse mortgage
VA (SNF), Aid & Attendance

Effects on family caregivers

Job, family, health, savings, retirement, future care needs

Public expectations

Inter-generational issues

Decisions, funding, property

Caregivers

Licensed professionals
Personal care aides
Family

Public benefits

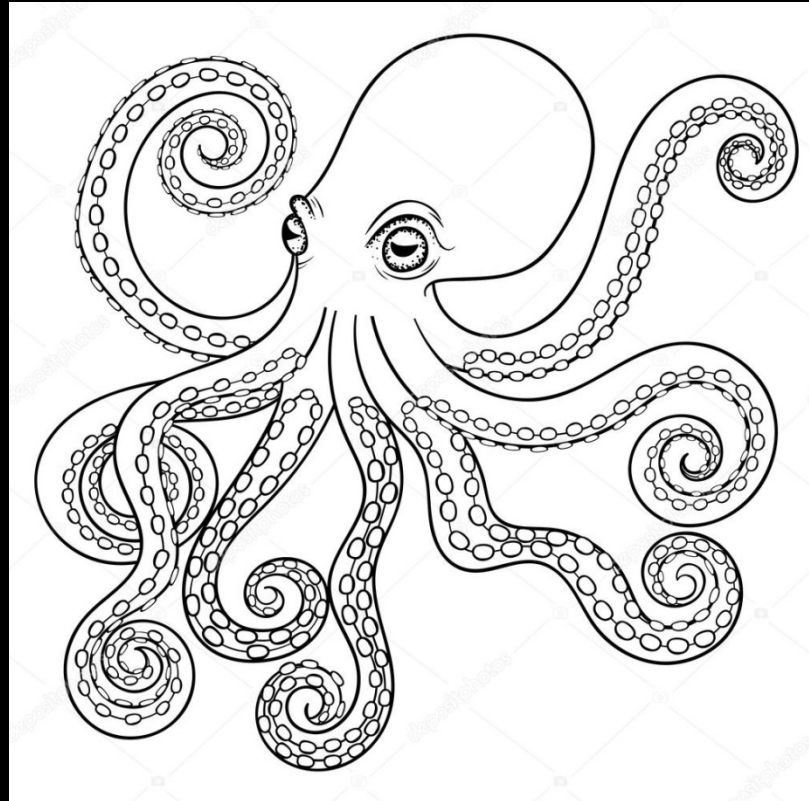
Medicaid, other state public programs
Medicare, skilled vs custodial

Staffing issues

Nursing homes
Home care aides

Transportation

Non-medical
Social



Politician



This is going to cost money!



What's happening to my employees?

Reporter



How do I write about this?!

Portrait of a Caregiver

Look familiar?



Is this you or someone in your family?

Who Are the Caregivers?

- Average Caregiver
 - ***A woman 47 years old will spend about 15 years providing care*** and often suffers from declining health
 - The “sandwich generation”
 - Children still at home or in college
 - 2/3 of caregivers work full or part time
 - Men increasingly acting as caregivers
 - Caregivers payments
 - Medications
 - Transportation
 - Housing
 - Care, services, DME, or supplementing paid benefits
 - **Effect on health and work, impacting job performance, opportunities and advancement**
 - Lower current income and future retirement income

6 Ways to Pay for Long-Term Care

1. Insurance

- Life and annuities with LTCI benefits
- Stand alone LTCI
 - Individual or shared benefits
 - Partnership program
 - Federal or state LTCI programs
- Cash value or loans from life insurance
- Life settlements

2. Combining housing and care

- CCRC's and "retirement homes"
- Other residential and care arrangements

3. HUD insured Home Equity Conversion

4. VA benefits

- Skilled nursing care
- Aid and attendance benefits

5. Medicaid

- Other state waiver programs

6. Family care

Part of all previous methods

One Important Protection

- “Spousal Protection” (2018)
 - **1988 federal rules protecting couples***
 - **Minimum monthly income**
 - \$2,057.50 (minimum) \$3,090 (maximum)
 - **Resources:**
 - \$24,720 (minimum) \$123,600 (maximum)
 - **Home equity**
 - \$572,000 (minimum) \$858,000 (maximum)
- **Applies to:**
 - individuals who are institutionalized (most commonly those in nursing facilities) and to certain individuals receiving home and community-based waiver services.

*See handout

Long-Term Care Insurance

- Long-Term Care insurance is a state regulated product
 - Differences state by state
 - Products are:
 - Medically underwritten
 - Weeding out obvious or potential risks
 - » Lab and cognitive testing
 - Priced by age and gender
 - Single women pay 40% more
 - Complex, legal documents
 - Not standardized and difficult to understand



Applicants

– Applicants must be:

- Able to pass health screening
- Able to pay premiums until benefits are needed
 - Retain coverage and absorb premium increases
- Have someone available to navigate system for filing claim and collecting benefits when needed

First National Standards (1996)

- Federal law establishes tax qualified LTCI (TQ)
 - Policies that meet specific NAIC standards
 - Granted certain tax status
 - Deductibility of premium (age plus premium)
 - Benefits are not taxable
 - Created a federal floor of standards based on certain NAIC Model Act and Regulation requirements
 - States can add or strengthen any requirements that don't conflict with federal law
 - **Benefit triggers are an exception**
 - States cannot change, add, or have more generous triggers (TQ)

*Health Insurance Portability and Protection Act (HIPPA) 1996

Federal Benefit Eligibility Criteria

• **Definition of a chronically ill individual:**

1. **2 ADLs or severe cognitive impairment**
 - No other benefit trigger allowed
2. **Certified by licensed health care professional**
 - Nurse, doctor or social worker
3. **Condition expected to last at least 90 days**
 - Is not a deductible period before benefits can be paid
 - No repercussions if period is actually shorter



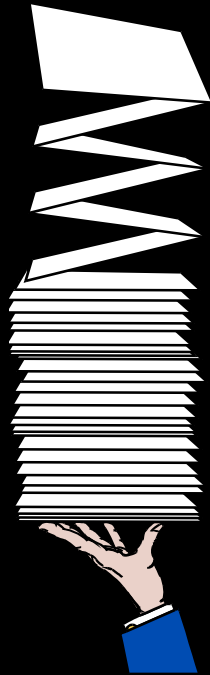
- *Benefits must coordinate with Medicare*

• **Definition of long-term care services**

- The term “qualified long-term care services” means necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care services (added by TQ)

Insurance With LTCI Benefits

- **Types of combination products**
 - **Life insurance** with LTC benefits included or rider
 - Accelerates payment of death benefit
 - ADLs, or Cognitive Impairment triggers
 - » Benefits = a percentage of death benefit
 - Chronic or terminal illness benefit triggers
 - Accelerates death benefit
 - No restrictions on use of benefits once eligible
 - **Annuities** with long term care benefits
 - Accelerates benefits (immediate, deferred, term)
 - May include rider with separate benefits or pool of benefits
- **Life settlements**
 - Selling a death benefit



Stand Alone Long-Term Care Insurance

• **5 choices plus age of applicant = premium**

1. **Where benefits will be paid**

- Nursing home, assisted living, home care
- Comprehensive or institutional only

2. **Daily benefit amount**

- Specific dollar amount to be paid each day for care
 - Example: \$100 daily benefit amount

3. **Duration of benefits**

- How long benefits will be paid (duration)
 - **Example: Two years (730 days) X \$100 = \$73,000**



- Continuation of Choices

4. Length of a waiting or elimination period, if any

- When benefits begin once deemed eligible for benefits
 - Example: 30, 60, 90, 100 days, or none
 - How are these days counted? Calendar day or service day?

» **Family care will NOT be applied to a waiting period**

5. Inflation protection included, delayed or rejected

- Embedded in policy and premiums
 - 5%, 3%, (other) (compounded or simple)
- Future purchase option (delayed)
- Other, or none



6 “Suitability” Decisions



1. **Personal profile**

- Age, income, and assets

2. **Health screening**

- Medical screen and existing health conditions

3. **Benefits selection**

- Appropriate benefit package based on personal profile

4. **Waiting periods**

- Ability to pay for care during waiting period

5. **Inflation protection**

- Built in benefit vs. periodic increases, danger of none

6. **Premium affordability**

- Initially and in the future

Unofficial Claims Trends

- **Benefits used in nursing homes**
 - Approximately **10%** of claims
 - Dementia and long stays
- **Benefits used for home care**
 - Approximately **50% - 60%** of claims
- **Benefits used for assisted living**
 - Approximately **15% - 20%** of claims
- **Interesting trend from one insurer**
 - Claims tend to end where they began
 - Not clear if “end” means benefit exhausted or insured died

3 Things to Remember

- **Insurance is regulated by each state's rules**
 - States have similar but different rules
- **The meaning of definitions and exclusions differ from one state to another**
 - Example: Assisted living (i.e., licensing, size and type, services in-house or outsourced?)
- **The person filing the claim is not the insured**
 - Most claims begin with some critical event or immediate need
 - Family members know very little about long term care

The Role of SHIPs

- **Education**
 - Help the public understand long-term care
 - Provide and publicize resources
- **Information**
 - Inform clients (not advise)
 - Provide resource information
- **Assistance**
 - Overview of long-term care insurance
 - Help clients understand their insurance benefits

Premium Increases



- A perfect storm!

Premium Increase Examples

- Examples: Average national increases
 - John Hancock: Average **40%**
 - Lincoln Benefit Life: Average **47%**
 - Entered the market 1997, left in 2005
 - Genworth: Average of **58%** (2018)
 - 28% in both 2016 and 2017
 - 8-12% 2009, 18% 2011
 - Met Life: requested **49%**
 - Mutual of Omaha: **19.5%**
 - No increase for over age 80 policyholders
 - Prudential:
 - 18% to **32%** ILTCI1, 15% to **30%** LTC By Design (2016-17)
 - Mass Mutual **77%**

Important Consumer Protection

- Contingent Benefit on Lapse (NAIC)
 - Following a premium increase, or Commissioner order
 - Benefit based on age at purchase, **plus**
 - Cumulative percentage of rate increases since purchase
 - Insured can choose to stop paying premiums
 - Policy remains in force, with
 - Total benefits equal to amount of premiums paid (Paid up policy)
- Example:
 - **Age 65** at purchase, now age 80
 - **Premium increase = 50%** increase since purchase
 - Total premiums paid \$40,000
 - **Paid up policy benefits = \$40,000**

How Rate Increases Happened

- The perfect storm for pricing
 1. **Lapse rates** much lower than expected
 - Larger number of people continued to pay premiums
 - More claims filed than expected
 2. **Investment** income down
 - Interest rates on earnings plunged
 - Not enough reserves held to pay claims
 - Insurers required to increase reserves

3. **Claims** data different than expected

- **Failed to accurately predict future claims**

- \$ **Assisted living and home care claims greater than predicted**

- \$ **More benefits paid for home care and claimed sooner**

- \$ **More dementia claims than expected**

- » **Longest duration of all claims**

- **home care progresses to SNF**

- **Result: Large premium increases**

What Happened Next?

- **Companies stopped selling stand alone LTCI**
 - 100+ companies reduced to >20 currently selling
 - Stopped selling lifetime benefits
 - Increased health screening
 - Increased premiums for single women
- **Combination products take over the market**
 - Life and annuity linked LTCI
 - Numerous designs and benefit triggers
 - Some shared benefits
 - Various ways benefits can be used by couples
- **2 Companies become insolvent**
 - PTNA and ANIC

PTNA and ANIC Insolvency

PennTreaty Network America and American Network

- State Guaranty Association management
 - “Requests” premium increase from insurance dept
 - Notices to policyholder after premium increase approved
 - Options to reduce increase may include:
 - » Reduce daily benefit and/or duration
 - » Reduce or eliminate inflation protection
 - » Paid up benefits equal to premiums paid
 - » Cash out equal to actuarial calculation of value
 - See 2 handouts to assist with options and choices

What Is Insolvency?

- When an insurance company does not have sufficient resources to fund the benefits they've promised to pay
 - Errors in pricing assumptions
 - Lapse rates, number and length of claims, interest earnings on reserves, minimal underwriting, etc.
 - Result:
 - Have inadequate reserves
 - Need massive, or unrealistic premium increases
- State insurance official petitions the court
 - Court orders liquidation and appoints receiver
 - In this case PTNA operates under receiver <https://www.califega.org/Receiverships>

What's A State Guaranty Fund?

- Each state has a Guaranty Association
 - Companies selling insurance in a state must join
- Each state Association establishes a “Guaranty Fund” for:
 - Health and disability products
 - Including LTCI
 - Life and annuities
 - Property and other products
- Companies are assessed in each state
 - Based on their premium volume in that state to cover costs of an insolvency
- Each state caps each policyholder's total benefit payment
 - Most state caps set at \$300,000

State Guaranty Fund Operations

- Administration of company business continues
 - By GA/liquidation officer/outsourced entity
 - Calculates and collects assessments
 - Pays claims, collects premiums, communicates with policyholders
- Functions can be outsourced to 3rd party
 - LTC Re, a reinsurer manages PTNA assets and guaranty fund assessments on behalf of 44 states

Resources

- <https://longtermcare.acl.gov/the-basics/>
- http://www.benefits.va.gov/pension/aid_attendance_ho_usebound.asp
- https://www.naic.org/documents/prod_serv_consumer_ltc_lp.pdf?17
- <https://www.ltcfeds.com/>
- <https://www.hhs.gov/aging/long-term-care/index.html>

More Resources for the Curious

- <https://bipartisanpolicy.org/blog/tag/long-term-services-and-supports/>
- <https://academic.oup.com/aapp/article/34/2/333/8148?searchresult=1>
- <https://www.soa.org/sections/long-term-care/ltcthinktank/>

Questions?



Answers



Yes

No



...maybe