Past, Present & the Future of Long-Term Care Insurance
Look at Compliance

Society of Actuaries
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Presented by

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The purpose of this presentation is to provide a general overview of regulatory climate surrounding Long Term Care Insurance and share few thoughts about future direction of LTC in light of recent State, Federal, and National developments.
Agenda

1. Evolution of Long Term Care Insurance
2. The States, the Feds and the Ugly - Evolution & Progression of LTCI Regulation
3. IIPRC/Interstate Compact & Speed to Market
4. Deficit Reduction Act – LTC Partnership
5. Class Act
6. State of LTCI
7. What’s Next?
8. Questions?
Evolution of LTCI

- 1960s, LTC products initially developed following the creation of Medicare in 1965
  - intended to supplement payment for the primary form of long-term care at that time: nursing homes
- Early 80's research based awakening
- Mid 80's LTC insurance became real/ debate about the relative worth of social vs. private insurance
- 1980’s, intro of stand-alone nursing home policies
  - no longer tied to Medicare coverage; triggered by the insured’s inability to perform defined ADLs and cognitive impairment.
  - Incorporate myriad of long-term care service alternatives including home health care, respite care, hospice care, personal care in the home, services provided in assisted living facilities, adult day care centers and other community facilities
Evolution of LTCI

- Emergence of group long-term care policies.
- Young industry = Growing pains
  - Relatively new product, mitigates expenses do not occur for years to come
  - Limited accumulated claims experience
  - Under-pricing due to assumptions and data
    - Lapse rates, interest and future anticipated claims
  - Not making $
  - Questionable claim practices
Evolution of LTCI Regulation

- In 1987, NAIC adopted LTC Insurance Model Act
- In 1988, NAIC adopted LTC Insurance Model Reg.
- In 1996 Congress began regulating the industry as part of the Health Insurance Portability and Accountability Act of 1996 - required quality standards
  - Qualified long-term care insurance policies = special tax treatment
  - Qualified policies must offer inflation and nonforfeiture protection
  - Activities of daily living (ADL) and cognitive impairment triggers
  - Premiums for "qualified" long-term care policies treated as a medical expense
  - Policies purchased before January 1, 1997 may be grandfathered-
LTC Regulation cont.

- States regulate long-term care insurance.
- 1990s, companies refined their assumptions and adjusted their premiums.
- Closed blocks, rate increases, increase in lapse rate.
- Challenge: companies need to charge sufficient premiums to remain solvent and pay claims vs. state regulators assurance that that consumers are treated fairly in the pricing of policies.
- Higher initial rate to limit potential future increases and ensure rate stability.
LTC Regulation cont.

- Numerous changes to the models to address rate stability, suitability, loss ratio requirements, consumer disclosures, and other consumer protections—much more conservative

- In 2000, NAIC developed and adopted rate stabilization standards as part of revisions to the NAIC LTC Insurance Model Regulation, and
  - added supplemental requirements for consumer disclosures
  - changed minimum loss ratio requirement of 60% to 58% of the original premiums filed
  - 85% loss ratio for rate increases

**Applied prospectively**

*More than half of the states and several insurers adopted new standards*
LTC Regulation cont.

- **Summer 2008 - NAIC**
  - GAO – working on LTCI report re rate increases and claims handling - frequency and degree of rate increases varies
  - NAIC Senior Issues Task Force takes on and refers “Closed block” issue to LHATF

- **Fall 2008 - LHATF**
  - revise model rules for appropriate long-term care rates, rating practices, and rate changes,
  - look at closed blocks of business,
  - study the minimum standards applicable to statutory reserves for LTCI, and
  - begin developing a principle-based framework for a set of minimum standards.
Fall 2009 - NAIC
Health Insurance and Managed Care (B) Committee

- Continue to study and evaluate evolving LTC insurance product design, rating, suitability and other related factors,
- Review existing LTC Model Act and Regulation to determine their flexibility to remain compatible with the evolving delivery of long term services and marketplace.
- Monitor and provide assistance to the states on the implementation of the 2000 rating practices amendments to the LTC Insurance Model Regulation.
LTC Regulation cont.

Winter 2009 - NAIC

• **Inauguration of the Long-Term Care (EX) Task Force**
  • Find solutions to LTCI, look at rates, closed blocks, seek coordination among other groups, compact, seek input from other groups

• **Accident and Health Working Group (AHWG)**
  • Work with Long-Term Care (EX) Task Force and ask SOA and AAA joint committee to provide recommendations on structure and variables necessary to establish a principle-based LTC valuation experience table.
NAIC LTC Ex. Task Force (9/09, chaired by AL)

- **2010 Charges:**
  - Identify and analyze issues, and make recommendations, relating to long-term care insurance; specifically, with regard to open and/or closed blocks of long-term care business:
  - Whether there is anything the NAIC can or should do to address possible reserve deficiencies and rating issues, such as mitigation against rate increases and death spirals;
  - In line with the NAIC's current model law, explore options where appropriate, and monitor efforts, to ensure the fair or equal treatment of policyholders, including those in situations where policyholders live in multiple states; and
  - How regulators should treat the spin-off or transfer of closed blocks of business to another entity, including process issues related thereto

*Will use information on California DOI website to document how states are handling rate filings for in-force and closed blocks*
LTC Regulation cont.

Long-Term Care (EX) Task Force ------ Spring 2010--NAIC

- Use information on the California DOI website to document how states are handling rate filings for in-force and closed blocks; asked state actuaries to review the California data and advise if changes are needed.
  - **LTC Rating Subgroup** (3/10, chaired by MO)
  - **Reserves Issues Valuation Subgroup** (3/10 chaired by CA)
  - Society of Actuaries and the Academy of Actuaries may be asked to examine geographical experience to determine if the IIPRC rate filing standards which are based on national experience are appropriate for use by all states.

- **Accident and Health Working Group**
  - 2 subgroups: pricing and valuation to look at issues related to long-term care closed blocks
Long Term Care Rating Discussion Questions posed by MO

- Should “moderately adverse” be defined as “sufficient in aggregate to withstand a claims increase of 10%?”
- Would rate increases generally be prevented until actual claims exceed expected by 10%? Should this be a recommended revision of the rate stabilization model?
- Should initial LTC rate filings be required to include an annual cap on future rate increases?
- Should LTC Premium Deficiency Reserves be required to assume no future rate increases? Should this be in initial rate filings, or when renewal rates appear inadequate to prevent future losses beyond the initial moderately adverse assumptions? How could PDR be required?
- 7 additional LTC related Q’s posed to A&H Working Group
- State survey will be conducted to document rate increase data for post-rate stabilization business.
LTC Rating Discussion Questions for AHWG

1. Is there evidence of geographical differences in experience?
2. Should states implement different rate increases, or suggest breaking a rate increase into partial increases over several years?
3. The conflicting responsibilities a state regulator has in trying to secure low rates for state residents and in suggesting that a rate increase is inadequate and saying the company should implement an increase larger than requested.
4. Should LTC Premium Deficiency Reserves be required to assume no future rate increases?
5. Should the definitions of “moderately adverse” be made stricter in initial rate filings?
6. Could initial LTC rate filings be required to include an annual cap on future rate increases?
7. Should rate increases be prevented until actual-to-expected future losses exceed 110%?
LTCI Third Party Independent Review

- Media interest in claim denials
- Iowa 2008 legislative proposal
- NAIC took interest
  - *Summer 2008 Senior Issues Task Force*
    - 2 subgroups:
      - (chaired by WI) charged to draft sections 31 and 32, of the LTC Model Regulation to reflect independent review of benefit determinations and prompt pay language. Amendment to LTC Model Act (#640) to change Section 10 to allow Commissioners to promulgate regulations for independent review of benefit determinations.
      - (chaired by SD) to develop uniform definitions
  - Changes Adopted – Fall 2009
LTCI Third Party Independent Review

- Clarify the definition of “claim” on Appendix E (no uniformity - allowed companies to report on a per person or per claim basis)
- Avoid confusion with existing medical external review laws
- Unique provisions to recognize unique review process for LTCI
  - Benefit trigger review rather than treatment or service denial
  - Less reliance on clinical studies
Key Provisions in the NAIC Model

• Internal Appeal
  • Insured has 120 days to appeal insurer’s benefit trigger denial
  • Internal appeal must be reviewed within 30 days of receipt
  • Appeal reviewer must be different from reviewer on denial
  • If appeal denied, prescribed notice of right to Independent Review

• Independent 3rd Party Review
  • Insured has 120 days to request Independent Review
  • Insurer must acknowledge request to insured and the DOI
  • Cost for Independent Review is borne by insurer
  • Review limited to file documentation used by insurer
  • Decision binding on insurer
Interstate Insurance Product Regulation Commission (IIPRC) – the Compact

- 2001, state insurance regulators created CARFRA (Coordinated Advertising, Rate and Form Review Authority),
- The NAIC formed a working group in 2002 to develop compact legislation
- The Compact was created when the first two states, Colorado and Utah, enacted legislation.
- In 2006, Product Regulation Commission (IIPRC) brought into existence 26 states or 40% of premium volume nationwide;
- Today, 36 Members representing over 50% of premium volume.
- The IIPRC is a vehicle to (1) develop uniform national product standards (2) establish a central point of filing for life insurance, annuities, disability income and long-term care insurance products; and (3) review product filings and make regulatory decisions according to the uniform product standards.
- System for Electronic Rate and Form Filing (SERFF)
Thursday, March 25, 2010

- Public Hearing and joint meeting of the Interstate Insurance Product Regulation Commission and its Management Committee on the proposed LTCI Uniform Standards issued on January 21, 2010
- Many concerns surrounding the development of LTC standards
- Alternatives in addressing concerns specific to the issue of rate increase filings
- More work needed
- Product Standards Committee to review all comments and submit their recommendations.
- Next, the Rulemaking Committee will begin to address combination product lines filings, any other LTC rules that are needed, and innovation product filing process.
LTCI Standards Under Consideration

- Core Standards for Individual Long-Term Care Insurance Policies;
- Individual Long-Term Care Insurance Application Standards;
- Individual Long-Term Care Insurance Standards for the Outline of Coverage;
- Rate Filing Standards for Individual Long-Term Care Insurance—Issue Age Rate Schedule Only;
- Rate Filing Standards for Individual Long-Term Care Insurance—Modified Rate Schedules;
- Standards for Forms Required to be Used with an Individual Long-Term Care Insurance Application;
- Standards for Individual Long-Term Care Insurance Advertising Material;
- Standards for Individual Long-Term Care Insurance Application Change Form;
- Standards for Long-Term Care Insurance Benefit Features; and
- Standards for Riders, Endorsements or Amendments Used to Effect Individual Long-Term Care Insurance Policy Changes.
As population ages, our nation faces an increasing challenge of how to pay for long-term care services rising cost for long-term care is a looming crisis that threatens Americans’ retirement and financial security and is putting significant strains on government entitlement programs

- a third of all LTC services are provided by unpaid family & friends
- states’ Medicaid programs expenditures for long-term care and home health services amount to over half (55.6%+) of total Medicaid spending
- personal savings (including annuities and reverse mortgages), and life insurance with LTC riders.
  
  Direct out of pocket = 22% of spending

- Private long-term care insurance is an important piece of the long-term care landscape
Long Term care is here to stay....

Shift costs to private sector by encouraging individuals to purchase long-term care insurance.

- 28 states provide tax incentives for purchasing LTC insurance.
- Few states provide tax credits for employers
- Other incentives to encourage the purchase of LTC insurance, mitigate costs of long-term care, and reduce budget shortfalls (*first HIPAA, then ....*)
Deficit Reduction Act of 2005 (DRA)

Qualified State Long-Term Care Partnership Program

Allows states to develop a public-private partnership with Medicaid and the private insurance market to create products that allow individuals to purchase long-term care insurance in exchange for shielding assets in the determination of eligibility for Medicaid.
• The program gives all states the option to set up partnership programs previously available in four states

• Promotes LTC insurance market growth through both “carrot” and “stick” approach
  - **Stick** = tougher to qualify for Medicaid
  - **Carrot** = educate and motivate personal responsibility

Goal is to have reciprocity and uniformity & encourage private responsibility
National Partnership Features:

- Grandfathers existing Partnership programs
- Allows dollar-for-dollar offsets for group and individual coverage
- Tax Qualified policies only
- Policy must meet NAIC 2000 Model Act requirements
- Inflation protection required, as follows:
  - Below age 61, undefined “compound annual inflation protection”
  - For ages 61-76 “some level of inflation protection”
  - Beyond age 76 no inflation protection required

- States have discretion in how they implement partnership programs under statutory requirements and federal implementing guidelines, such as the amount of inflation protection and number of hours required for agent training.
Example

- Buy Partnership policy with Lifetime Maximum of $100,000
- Use up private LTC policy and apply for Medicaid
- Single person would otherwise get to keep $2,000 in assets (and state would recover from estate after death)
- With Partnership policy, person can keep $102,000 in assets *(state won’t recover this after death)*
- Any additional assets person has MUST be spent down
- If state has income limit to qualify for Medicaid, person must meet it, before they can get Medicaid LTC benefits

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SOA Annual Health Meeting – June 29, 2010
Approved State Plan Amendment
State Documents Available
Policies for Sale
State Plan Amendment Submitted
No documents available for these States

http://www.dehpg.net/ltcpartnership/

33 operational states (June 2010)
The Community Living Assistance Services and Supports (CLASS) Act

- Part of health care reform legislation
- Voluntary and open to working individuals through their employer
- Employers will not be required to participate/ opt-out
- Premiums automatically deducted
- Have to pay premiums for five years before they are eligible to receive benefits (benefit payments do not begin until 2016)
- Cash benefit averaging no less than $50 per day
- HHS to determine premiums to be paid by participating workers and the exact benefits
- The CBO estimates premiums at $123 per month while HHS’s CMS estimates average of $240 per month
CLASS Act: What It Is Not

- A comprehensive national long term care solution
- Limited to seniors and eldercare
- An income replacement benefit
- A substitute for private LTC insurance
- Guaranteed premiums and benefits

CMS anticipates 2.8 million people to participate by 3rd yr. This level represents about 2% of potential participants, compared to a participation rate of 4% for private LTCI offered through employers.

(Factors affecting participation in CLASS may include the program’s voluntary nature, the lack of a Federal subsidy, a minimal premium for students and individuals with incomes under 100% of the FPL)
Anticipated Changes to the Act:

- Ways to eliminate fraud and abuse on the recipient side
- How to get the more healthy population to enroll
- How to address adverse selection.

Other Considerations:

- Potential changes to NAIC LTC Models
- Coordination of benefits between the CLASS Act and supplemental LTC private plans
- Additional consumer protections
- Impact on Partnership sales
- Assessment of benefit triggers
State of LTC

- 19% of the over-65 segment of the population needs some level of LTC assistance,
- 42% of those receiving long-term care are < 65
- 55% of those over-85 will need assistance.

Looking ahead:

- the over-65 segment of the population is expected to double between 2000 and 2030 (12 million – by 2020), and within this group the over-85 segment will grow the fastest;
- the baby boomers in the U.S. are growing older and living longer.
State of LTC cont.

- Private long-term care insurance policies finance approximately 10% of the total long-term care services utilized in this country.

- In the past decade market has grown from covering < 3 million to now covering >7 million lives. (*83 million is the estimated population of Americans who qualify for LTCI. > 76 million have yet to purchase a stand-alone long-term care insurance product.*)

- The market has grown from a premium volume of $16 billion to over $110 billion in 2007.
What’s Next….

The increasing cost of long-term care, and budget shortfalls lead to consensus that long-term care is an item that will stay on the agenda in future years.

The need for LT planning and LTCI is greater today than ever before. People can't always rely on family members to provide their care.

Greater longevity, shorter hospital stays and advances in science and medicine that sustain life longer.

Growing consumer demand with huge untapped market

Most individuals do not think about buying long-term care insurance until such time as they perceive the need for it.

Unlike most other health related insurance products, the bulk of long-term care insurance is sold to an individual (75%), rather than group.
What’s Next….

Rather than being another option in an employer’s group health benefits, an individual has to individually perceive the need for long-term care insurance, and then do the research and comparison shopping necessary to acquire the coverage they want.

The individual policy distribution mechanism likely leads to the often-cited “adverse selection” problem.

Most LTC insurance is purchased by middle-income to upper-income individuals.

These purchasers are usually married, in their late 50s, and more financially secure than the overall population. About 50% of people buying long-term care insurance earn above $75,000 annually compared to 31% of the general population age 50 and older.

Three-quarters of purchasers have liquid assets (i.e., assets not including the home) over $100,000 compared to 30 percent of the general population. About 16 percent of long-term care insurance buyers earn less than $35,000 annually.
What’s Next….

The premiums are usually perceived as unaffordable for lower-income people, while some upper-income people select to use their liquid assets rather than purchase insurance.

Unlike employer-sponsored health insurance, individuals who purchase long-term care insurance through an employer usually pay 100 percent of the premium and, as long as they continue paying premiums, remain covered under the policy regardless of whether they continue working for that employer.

On their own, more employers are looking at offering long-term care insurance as a benefit either for all employees or for certain categories of employees and their dependents.

Businesses lose up to $33 billion annually in absenteeism and lost productivity because of employees who are distracted or exhausted by caring for family members.

Higher profit margins relative to other product lines
Improved pricing knowledge
What’s Next....

Consider reinsurance
Life and annuity carriers - LTCI riders
Creative products/combo products
Simplify application process
Simpler products
Marketing- target younger ages
Simplified underwriting
Questions?

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