What SHIPs Need to Know About 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

### 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

### Effects on family caregivers
- Job, family, health, savings, retirement, future care needs

### Public expectations

#### Inter-generational issues
- Decisions, funding, property

#### Transportation
- Non-medical
- Social
Politician

This is going to cost money!

Reporter

How do I write about this?!

What’s happening to my employees?
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

Burns Consulting V.2 (August 2018)
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% ILTCI, 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/


- https://www.ltcfeds.com/

More Resources for the Curious

- https://bipartisanpolicy.org/blog/tag/long-term-services-and-supports/

- https://academic.oup.com/aepo/article/34/2/333/8148?searchresult=1

- https://www.soa.org/sections/long-term-care/ltcthinktank/
Questions?

Answers

Yes

No

...maybe