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SOCIETY OF ACTUARIES

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Benefit Reductions to Offset LTC Premium Increases: Evaluating Options

By Mike Bergerson and John Hebig

Rate increases in the U.S. long-term care (LTC) insurance market have been a fact of life for at least the last decade, and they are not going away any time soon: 75 percent of companies currently writing new LTC policies[1] and 52 companies that have ceased issuing LTC business[2] have filed for rate increases in the past decade. In fact, it appears that many regulators have come to the conclusion that rate increases, especially on older blocks of business that were priced before insurers had significant LTC experience, are justified from an actuarial perspective. In other words, the policies are not financially viable without rate increases. Because of this, regulators appear to be shifting some attention away from attempting to eliminate rate increases toward limiting the impact of increases on policyholders.

Part of this is ensuring that policyholders have viable options for keeping coverage and ensuring that past paid premiums were not in vain. Benefit reductions that offset a premium rate increase are a key part of this approach, enabling trade-offs between policy cost and policy benefits. To this end, regulators are devoting growing resources to understanding and controlling benefit reduction options offered by insurers seeking a rate increase.

BENEFIT REDUCTIONS: COMMON AND LESS COMMON

There are several possible benefit reduction options that insurers can—and in some cases, must—make available to policyholders. Most are subject to regulatory minimums and maximums.

Some options are required under the National Association of Insurance Commissioners (NAIC) Model Regulation.[3] These include reduction in daily, weekly, or monthly benefit, and reduction in maximum benefit (benefit period or benefit pool). These options are available to policyholders, even if no rate increase is expected, as a means to reduce premiums at the policyholder's discretion. Another common benefit reduction option is to remove or reduce inflation protection. This is a complex option and is treated in more detail below.

There are at least three other benefit reduction options that are offered, although typically they are less common than those already mentioned for a variety of reasons. These benefit reduction options include:

- Increasing the elimination period: In other words, increasing the amount of time a policyholder must meet the requirements to be eligible for benefits (and in some cases be receiving care) before expenses are reimbursed. This option generally does not have a large impact on rates, and policyholders are often reluctant to change elimination periods as they have already chosen their elimination periods, often based on significant consideration.
- Reducing home care coverage: For comprehensive policies, the percentage of home-based care compared to nursing home care that can be reimbursed under the policy can be reduced. Newer comprehensive policies tend to offer purchasers a wider range of home-based benefits. However, LTC customers tend to put a lot of thought into their policies, meaning they have already decided that they will need a certain level of home-based care coverage and prefer that option over moving to a care facility.
- Contingent benefit upon lapse: Also called a contingent nonforfeiture benefit, with this option policyholders who cannot or choose not to continue paying for their policies receive significantly reduced benefits. Many states require by regulation that insurers offer contingent nonforfeiture

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What regulators look for

When it comes to benefit reductions, actuarial soundness and regulatory compliance are key factors for regulators. However, they also look out for the interests of policyholders more generally by asking the following questions and requiring insurers to make adjustments where necessary:

- By what means are benefit reduction options going to be communicated to policyholders?
- Are the communications clear and easy to understand?
- How are premiums calculated when a policyholder reduces benefits? Is it done in an "actuarially equivalent" manner? Regulators do not generally define what "actuarial equivalence" means in regards to benefit reductions. One possible interpretation using the approved rate tables has been acceptable to regulators and is described in this article.
- Is telephonic counseling available to help policyholders understand their options and make a decision?
- Is the possibility of future rate increases adequately disclosed to policyholders?

CHAIRPERSON'S CORNER

"Ready For Action"

By Bob Hanes

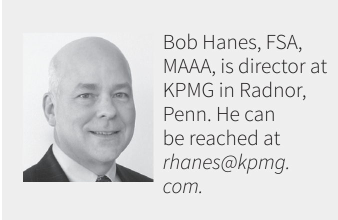
> With such a commitment comes the opportunity to join the effort.

A familiar advertising slogan marketed by Yellow Pages when I was growing up was, "Let your fingers do the walking." The objective of this successfully catchy advertisement was to encourage consumers to leaf through the Yellow Pages for a local service or vendor before actually setting out on foot or hopping in the car; hence, letting your fingers literally do the walking. The hope was that this would be a time-saving activity and that the readers would be better informed. Armed with this better information, better decisions would be made. With those better decisions came the positive feedback to repeat the routine the next time a plumber was needed or the tires on the station wagon (today's SUV) had to be replaced. In the end, the Yellow Pages remained a valuable resource for consumers and stayed in business by selling ads to the satisfied vendors.

The Yellow Pages still advertise the advantages of using their listings today, though the words have been replaced with the acronym "YP" and most of the encouragement is to visit their website for vendors and services instead of the hardcopy version. In the same way as YP provides valuable information, I would now like to stand up on my desk to encourage you to visit the Long Term Care Insurance Section's webpage found within the SOA's website. We know from the recently completed Long Term Care Insurance Section member survey that the section places great value in our periodic *LongTerm Care News* newsletter, but our webpage is not a frequently utilized resource.

The travel time to get to the webpage is short and relatively pain free. Go to www.soa.org, click on the "Community" menu, and then click on the "Long Term Care Insurance Section" found in the Sections column on the far left of the page. (You can also type www.soa.org/ltc/ into your browser. Remember to save it as a favorite!) Once there, you will find a treasure trove of information such as podcasts of sessions from recent industry conferences, upcoming meetings, access to online versions of the *LongTerm Care News* newsletters published since 2009, and links to recent LongTerm Care research. The Long Term Care Insurance Section is committed to expanding the information available on the page so that it becomes one of your "go-to" resources the next time you need to research a topic, network with other LongTerm Care subject matter experts, etc.

With such a commitment comes the opportunity to join the effort. Please send us your suggestions for LongTerm Care related content or tools that you would like to see on the website. All reasonable offers will be considered! We are definitely ready for action, so be on the lookout for updates to our webpage in the coming months. ■



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benefits for LTC policies based on the policy issue date, attained age, and size of the rate increase. A recent NAIC Model Bulletin, which has been adopted by some states, broadens the contingent benefit upon lapse requirement to apply regardless of rate increase size for policies that have been in force for at least 20 years and reduces the trigger for a substantial increase to 100 percent for all policies.[4] Additionally, we have seen many carriers voluntarily offer a similar benefit to all policyholders regardless of policy issue date or the size of the rate increase. In some cases, states have required this benefit to be available to all policyholders after a rate increase.

INFLATION PROTECTION: SEVERAL APPROACHES TO CHOOSE FROM

A change to inflation protection is a common type of benefit reduction. However, the implementation can be complex and requires insurers to tread carefully and work closely with regulators. Approaches mainly differ in terms of what happens to the daily benefit as well as the maximum benefit pool. There are three typical ways in which inflation protection changes are used as a method of benefit reduction.

Approach 1: The premium is set based on the lower inflation protection premium rate according to the original daily benefit level. The current daily benefit amount reverts to the *original* level and inflates according to the new lower inflation protection option from issue.

- Section 27, Subsection A.(3) of the NAIC Model Regulation requires that the policyholder be allowed to continue the benefit amount in effect at the time of the reduction or elimination of the inflation protection provision. Carriers using this method allow the insured to pay a higher rate for the current daily benefit rather than reducing to the original daily benefit.

Approach 2: The premium is set based on the lower inflation protection premium rate according to the *current* daily benefit level. The current daily benefit amount is locked in and inflates at the new, lower level of inflation protection going forward. This approach is similar to the first approach except that the default is to keep the current daily benefit and pay the associated premium rather than reverting to the original daily benefit.

- Regulators in some states have had issues with this method, characterizing it as unfair to policyholders because they are seemingly losing any benefit from previous premiums that paid for inflation protection. Unfortunately, limitations to administrative systems often mean that carriers have no other options, and contracts often require the insurer to allow policyholders to reduce their inflation protection. In these cases, we have seen insurers and regulators settle on a compromise to allow the reductions if the insured requests them, but not actively market a reduction to inflation protection as an option in the policyholder rate increase notification letter.

Approach 3: The premium is set based on the lower inflation protection premium rate according to the *original* daily benefit level. The current daily benefit amount is locked in and inflates at the new, lower inflation protection option rate going forward.

- This is the most advantageous approach to policyholders. Companies need to watch out for situations in which policyholders purchase inflation protection and then drop the rider after a few years as a way to get a higher daily benefit amount at a lower rate.

LANDING SPOTS: A CLEARER METHOD OF INFLATION PROTECTION REDUCTION

Recently, some insurers have begun offering a benefit reduction option known as "landing spots." Landing spots are essentially a more structured version of inflation protection reductions. Landing spots allow insureds to reduce their current inflation protection amounts to lower amounts in such a way as to offset the rate increase. The policyholder's current daily benefit keeps the inflation-based increase accrued to date and then begins inflating at a new, lower rate.

Landing spots have found favor with some regulators because they make things clear and easier to understand for insureds. Some policyholders may have actually overbought inflation protection, given the recent low-inflation environment, so they have less to lose in choosing a landing spot benefit reduction option. This is especially true for those who purchased the richest plans with the highest levels of inflation protection, typically at 5 percent annually. Policyholders get to keep inflation protection increases accrued to date, which avoids some of the issues inherent in other inflation protection approaches that retroactively remove increases to the daily benefit and maximum benefit pool.

The landing spot method is not a perfect solution. The changes to inflation protection rates can be difficult to administer. Insurers typically incur some costs based on the need to develop landing spots that are actuarially sound and the requirement that they file for additional rates and riders. Insurers need to consider salvage and utilization, if and how premium increases will vary based on attained age and the amount of inflation protection gained to date, and the granularity of rates developed to offset the premium increase. And, of course, landing spots are not an option for insureds who did not purchase inflation protection to begin with.

ACTUARIAL EQUIVALENCE IN BENEFIT REDUCTIONS

The NAIC Model Regulation, in Section 27, Subsection C.(2), states that the premium for reduced coverage should be con-

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sistent with the approved rate table. Each rate in the current rate schedule represents a "value" for its corresponding benefit that is actuarially equivalent to the "value" of other rates in the current schedule. A uniform increase in rates maintains this relationship. Adjusting the premium charged for an alternative benefit option in a way that is proportionate with the proposed rate scale has been considered an actuarially equivalent approach by regulators. Examples of benefit reductions calculated in this manner are provided in the next section.

Often, rate increases do not vary by policy characteristics such as benefit period, elimination period, inflation protection, or issue age even though the company may believe that experience shows significant differences based on these factors. However, if the increase does vary based on policy characteristics, it raises an issue with great significance for benefit reduction calculations: is the premium increase based on the benefit amounts before or after the benefit reduction takes place?

There are three fundamental approaches to this issue:

1. Base the premium increase on benefits as they exist before benefit reduction. This method prevents the insured from obtaining a lower increase by reducing benefits. Also, the system used for administering policies may "tag" the insured with an increase amount and then fail to "retag" them if they decide to reduce benefits afterward, requiring additional work on the part of policy administrators.
2. Base the premium increase on benefits as they exist after benefit reduction. In this case, insureds in a given class get the same premium rates regardless of how they get to the rating cell.
3. Use a combination of pre-reduction and post-reduction benefits to calculate premium rates. Here, the insurer uses the "after-reduction" method if the reduction happens within a certain amount of time after the rate increase, for example 60 days. This avoids complications that are due to the fact that systems may not be able to "remember" benefit changes indefinitely and over the course of multiple rate increases over the years.

EXAMPLES OF BENEFIT REDUCTION IMPACT ON PREMIUM INCREASES

Understanding the contributions of various benefit reductions on premium increases can be aided by numerical examples. The examples in this section are based on a policy using published new business rates for a comprehensive policy in the state of Florida.[5]

The tables in Figures 1 and 2 show variations in rate increase according to typical mitigation strategies, including daily benefit reduction, two levels of benefit period reduction, and a combination of daily benefit and benefit period reduction. Inflation protection changes are not included as the published new business rates do not include rates for policies with inflation protection.

The table in Figure 1 shows the results for a policy issued at age 65 and the table in Figure 2 shows the results for a policy issued at age 75. These examples do not perfectly offset the rate increase amount. The "Resulting Rate Increase" column shows the increase or decrease to premium that remains after the benefit reduction.

Figure 1

Effect of Mitigation Strategies on Premium Increases for a Policy Issued at Age 65

Issue Age 65					
Scenario/ Mitigation Strategy	Rate Increase	Premium	Daily Benefit	Benefit Period (years)	Resulting Rate Increase
Original Policy	0.0%	$ 1,736.36	$ 100.00	5	N/A
No Mitigation	30.0%	$ 2,257.27	$ 100.00	5	30.0%
Daily Benefit Reduction	30.0%	$ 1,738.10	$ 77.00	5	0.1%
Benefit Period Reduction	30.0%	$ 1,815.42	$ 100.00	3	4.6%
Benefit Period Reduction	30.0%	$ 1,498.72	$ 100.00	2	-13.7%
Combination	30.0%	$ 1,742.81	$ 96.00	3	0.4%

Figure 2

Effect of Mitigation Strategies on Premium Increases for a Policy Issued at Age 75

Issue Age 75					
Scenario/ Mitigation Strategy	Rate Increase	Premium	Daily Benefit	Benefit Period (years)	Resulting Rate Increase
Original Policy	0.0%	$ 4,820.81	$ 100.00	5	N/A
No Mitigation	30.0%	$ 6,267.05	$ 100.00	5	30.0%
Daily Benefit Reduction	30.0%	$ 4,825.63	$ 77.00	5	0.1%
Benefit Period Reduction	30.0%	$ 4,988.85	$ 100.00	3	3.5%
Benefit Period Reduction	30.0%	$ 3,995.43	$ 100.00	2	-17.1%
Combination	30.0%	$ 4,839.19	$ 97.00	3	0.4%

Figures 1 and 2 demonstrate some interesting characteristics of benefit reduction offsets to premium increases:

- A daily benefit reduction sufficient to offset the premium increase does not equal the size of the rate increase. Rather, the new daily benefit to offset the rate increase is equal to the daily benefit before the rate increase, divided by the rate increase as a percentage plus 1. So, for this example, the daily benefit to offset the rate increase would be $76.92 (which is equivalent to $100.00/1.30).
- Benefit period reductions will not generally be able to perfectly offset the rate increase, as shown with the benefit reductions above. A benefit period reduction can be combined with a daily benefit reduction to more closely offset the increase.
- Comparing the two tables shows that the impact of a benefit period reduction will vary by issue age and other characteristics. This is common for other benefit reductions as well, such as inflation protection reductions.

LOOKING FORWARD

Unfortunately, rate increases are likely to continue, especially on older, closed blocks of business that were developed before significant experience with LTC products was available. Insurers have a responsibility to policyholders to clearly communicate their options at the time of a rate increase, and regulators are increasing their scrutiny of these communications. At the same time, regulators are showing increased willingness to work with insurers to provide options that allow policyholders to keep some benefits and avoid the full impact of a premium increase. In this imperfect environment, the right benefit reduction approach can enable policyholders to maintain some protection for the premiums they have already paid, and enable insurers to reduce liabilities and release some amount of reserves. ■

ENDNOTES

[1] California Department of Insurance (2014). Long Term Care Rate History – Active. Retrieved April 8, 2015, from *http://www.insurance.ca.gov/01-consumers/105-type/95-guides/05-health/01-ltc/rate-history-active.cfm.*

[2] California Department of Insurance (2014). Long Term Care Rate History – Inactive. Retrieved April 8, 2015, from *http://www.insurance.ca.gov/01-consumers/105-type/95-guides/05-health/01-ltc/rate-history-inactive.cfm.*

[3] National Association of Insurance Commissioners (Q4, 2014). Long-Term Care Insurance Model Regulation, Section 27. Retrieved May 7, 2015, from *http://www.naic.org/store/free/MDL-641.pdf.*

[4] National Association of Insurance Commissioners. Model Bulletin: Announcement of Alternative Filing Requirements for Long-Term Care Premium Rate Increases. Retrieved May 7, 2015, from *http://www.naic.org/documents/committees_b_senior_issues_140313_ltc_model_bulletin.pdf.*

[5] Florida Office of Insurance Regulation. Life and Health Product Review: Long-Term Care New Business Rates. Retrieved May 7, 2015, from *http://www.floir.com/Sections/LandH/ProductReview/LTCNewBusinessRates.aspx.*

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EDITOR'S CORNER

Summer Reading

By Juliet Spector

We have a lot of content to get you through the last days of summer. In fact, we had so much content this newsletter that some additional content can be found on our website (please do visit it). Our writers were very gracious to edit down their articles for the print version and I thank them again for their cooperation.

The long term care (LTC) community has been doing a lot of work recently and the newsletter reflects a lot of those efforts. It was a pleasure attending the ILTCI Conference this year in Colorado Springs at the gorgeous Broadmoor. David Kerr has graciously compiled a summary of those events with the assistance of the ILTCI track chairs. Unfortunately, there is no way to attend all of the sessions. This article will help you get up to speed on what you may have missed. Deeper dives can be found on the conference website.

Prior to ILTCI, the SOA Long Term Care Insurance Section Council surveyed all of its section members on a variety of topics. Joe Furlong has summarized the results of the survey for you.

We are continuing with an international theme again this newsletter moving from Japan now to France. Etienne Dupourqué gives us an update on the many presentations and collaborations that have been ongoing with the Joint French Institut Des Actuaires and Society of Actuaries Project on LTCI. His article in the newsletter is a very brief summary of some of the initial lessons learned from these collaborations. This article will serve as a preview of future articles and a session at the 2015 SOA Annual Meeting & Exhibit.

As the LTC community continues to think of innovative product designs, we have two articles focused on the consumer perspective for this edition. One article is featured in our cognitive corner on why individuals may not buy annuities especially if they have cognitive limitations. In the other article, William Borton gives his on-the-ground perspective from working with clients and helping them find long-term care solutions.

To sharpen our actuarial skills, David Weinsier, Dean Kerr and Helen Duzhou have discussed the benefits of bringing soft data to our analyses.

And finally, as the industry still struggles with rate increases, Mike Bergeson discusses evaluating different options for benefit reductions.

I would like to thank all of the writers that have contributed to this edition of the newsletter and shared their experience with their peers. Our collective knowledge is greater than our individual experiences. As always, please continue to share your ideas and research in articles for the LTC Section newsletter. ■

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Soft Data: Another Side of the Story

By David Weinsier, Dean Kerr and Helen Duzhou

ACTUARIES AND DATA

When actuaries think of data, we traditionally think of hard data. Hard data is information that is directly observed and measured. For example, for long-term care (LTC) insurance, actual reported losses are observed and used to calculate incidence rates.

Hard data is useful and reliable; however, an overreliance on hard data can narrow the risk viewpoint and lead to potentially costly errors.

Actuaries are less familiar with the use of soft data and its applications. Because soft data is not acquired through robust processes, many actuaries may dismiss soft data as insufficiently viable. However, since the 2008 financial crisis, there has been a change in attitudes towards soft data. Utilizing or thinking about soft data allows risk managers and actuaries to broaden their risk perspective, which can help organizations identify and proactively mitigate emerging risks. Using soft data is particularly critical for LTC insurance as there may be limited credible experience based on hard data.[1]

This article will focus on several applications of how soft data can be applied to problems where either the amount of credible (hard) data is inadequate to draw conclusions or the process of data collection has not been appropriately robust.

CASE STUDY: DEMOGRAPHIC SHIFT IN AGE GROUPS OVER THE NEXT DECADE

One of the questions to be asked concerning LTC insurance is: what is the true demand for LTC insurance? More importantly, what will be the demand for LTC insurance in the future?

An actuary following a purely hard data approach might plot historic premiums over time and extrapolate those values into the future. However, history has proven the past to be an unreliable predictor of the future, as the sales of LTC insurance ballooned in the 1980s and then dwindled in the 2000s.[1]

CONTINUED ON PAGE 10

Table 1

Comparison of hard and soft data[2]

HARD DATA	SOFT DATA
• Quantitative; easy to store and transmit in impersonal ways, such as electronically	• Difficult to store and transmit for future use without understanding what that use will be
• Almost always recorded in the form of numbers	• Often communicated in non-measureable ways
• Independent of the collection process, meaning it is possible to separate the collection and evaluation (or use) of the data	• Not possible to separate the context under which the data is collected and the collector of the data—the collector is part of the data
• Can be collected in an impersonal fashion (has the added benefit of removing bias)	• Although one can potentially create a numerical score for soft data, it must be interpreted in the exact same way by different individuals in order to be considered hard data

HARD DATA is empirical *information* that has been observed, collected and measured using a systematic process.[10]

SOFT DATA is based on empirical *observations*. Unlike hard data, soft data is often not collected through robust processes, and may represent a proxy variable.[10]

A PROXY VARIABLE is a variable that is not directly relevant to, but has a close correlation with the true variable being measured.

See *Soft Data Example: A Ship Captain's Journey* to see how soft data may be applied.

SOFT DATA EXAMPLE: A SHIP CAPTAIN'S JOURNEY

A ship captain sailing from North America to Africa relies on an advanced navigational system to show exactly where the ship is on a world map. One day, the captain discovers that the system no longer works.

When the captain is relying on data gathered from the navigational system, the captain is using hard data that has been systematically collected and measured. However, when hard data is unavailable, the captain must resort to soft data, with a goal of blending together several sources of information in order to navigate the ship.

For example, the captain may navigate by constellations and the sun, weather patterns and cloud formations, and the presence of certain bird species to determine the correct course. The captain may also assign a sailor to watch for any physical obstacles. Finally, the captain may ask other sailors on the ship to recount their traveling experiences to determine the safest route. ■

Another actuary may look at this problem as being one of supply and demand. The true demand for care—and related insurance products—has always been driven by humans growing older and falling ill. As baby boomers age, demand theoretically increases. However, the supply of insurance has decreased as claims experience has exceeded expectations and insurers have exited the market. Further, LTC insurance premiums have increased, making policies less affordable for those seeking insurance.

Clearly, the above is a simplistic explanation of the market. In reality, the true demand or supply of LTC insurance is dependent on a myriad of factors. A model reflecting all of these factors is infeasible. Thus, soft data or anecdotal evidence can be used to help frame the answer.

Consider the following: In the United States, 66 percent of long-term care received is informal.[3] In Canada, Statistics Canada reported that nearly 70 percent of long-term care is provided by close family members, while 60 percent of informal long-term care is provided for an aging parent.[4, 5] The likelihood of requiring long-term care in Canada is one in ten by age 55, and one in two by age 75.[6] This is certainly useful hard data.

One clear take-away from the above facts is that a common situation occurs where children become the primary caregiver to their parents. Applying a soft data mindset, perhaps this experience will educate individuals on the cost and level of care needed, and result in a realization of the value of purchasing LTC insurance (and of the fact that the cost increases by delaying purchase).

INFORMAL CARE is unpaid care provided by family, friends and volunteers.

FORMAL CARE is paid care provided by professionals.

Using the above soft data (which, at the core, was drawn from hard data), an insurer may arrive at the conclusion that the aging of the baby boomers will cause an increase in demand for LTC at not only the older but also the younger ages. The insurer may then decide to target this source of demand for LTC, in the form of familial caregivers, and direct marketing activities at this segment of the population.

USING SOFT DATA TO ANSWER OTHER QUESTIONS

Soft data can be used to provide insight into several other LTC insurance challenges and weave together seemingly disparate sources.

COST OF LTC INSURANCE BENEFITS

Historically, benefits paid by many insurers have been higher than initially expected. However, looking forward, it is not immediately apparent whether improvements in medicine will a) prevent policyholders from going on claim or enable them to come off claim faster, or b) only be adequate enough to permit those going on claim to live much longer (but not recover). Thus, in the context of LTC it is not clear to an insurer how to interpret and react to this trend of medical improvements.

Consider the dilemma in the context of Alzheimer's disease, which is a major LTC insurance claims driver. Based on analysis of hard data, Alzheimer's is expected to become more prevalent in the future.[7] Accurate data related to diagnoses of Alzheimer's and other LTC claims drivers benefits an insurer in multiple ways; however, there is currently no single method to definitively diagnose Alzheimer's aside from an autopsy on brain plaque after death.[8] Thus, it would seem to be in an insurer's best interest to keep abreast of progress made in diagnosing this disease. One soft data approach to this problem is to monitor medical ventures and take note of any improvements in diagnosis standards. For example, one company has recently built a team of experts geared towards diagnosing Alzheimer's.[9] Proactively monitoring these advancements using a soft data approach may one day yield additional hard data that can be used to estimate future claims from Alzheimer's cases.

LEARNINGS FROM OTHER PRODUCTS

A classic example of hard data application is the extrapolation of Canadian Term to 100 insurance lapse experience to predict policyholder behavior on other lapse-supported products, such as Secondary Guarantee Universal Life (SGUL) insurance. Clearly the original collectors

Soft data can prove highly useful when defining the boundaries for potential answers to a problem or developing hypotheses.

of the Term to 100 lapse experience data were completely independent from the SGUL actuaries who later evaluated and relied on the data to help predict experience on portfolios of SGUL business.

Like hard data, soft data can also be used to generalize learnings from one type of product to another. A characteristic of many LTC insurance products is that they are highly customizable and non-standardized, featuring a range of benefit and rider options. Using a soft data approach, actuaries can look to other highly customizable products, such as certain Universal Life insurance or Variable Annuity designs, for insight into how in-force blocks of LTC insurance could be modelled and managed.

ENCOURAGING ACTUARIES TO BE "SOFTIES"

Insurers should encourage actuaries and other staff members to start thinking in terms of soft data in the following ways:

1. Create actuarial working groups and brainstorming sessions, paring down the resulting findings and key learnings, and disseminating the information across the firm.

2. Place different teams working in different functions close together to promote "cross-pollination" of ideas. For example, placing underwriters, marketers, and pricing actuaries together may result in creative new ideas that balance consumer demand and internal pricing and underwriting protocols.

CONCLUSION AND WORDS OF CAUTION

As with hard data, soft data should not be overly relied upon. Experts advise using soft data to complement hard data, and vice versa.[10] Further, Actuarial Standard of Practice (ASOP) 23 should be consulted: although soft data may not be acquired through robust methods, it should still be reviewed by a qualified actuary and vetted for quality and consistency.[11]

At a minimum, soft data can prove highly useful when defining the boundaries for potential answers to a problem or developing hypotheses. Where the deficiencies in hard data are too broad or complex, soft data can be used to make informed decisions.

The views expressed are the authors' own and may not represent the views of Oliver Wyman. ■

ENDNOTES

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Overview of the 2015 ILTCI Conference

The 15th Annual Intercompany Long-Term Care Insurance (ILTCI) Conference was held March 22–25, 2015 at The Broadmoor in Colorado Springs. The theme of the conference was "All Roads Lead Forward." This year's conference was co-sponsored by the Long Term Care Insurance (LTCI) Section of the Society of Actuaries along with the support of an additional record-setting 44 corporate sponsors. The main objective of the conference is to provide an information sharing and collaborative environment for insurance professionals, regulatory authorities, insurance educational institutes, actuaries and other special groups with an interest in long-term care (LTC) insurance.

The conference was the largest in its 15-year history in many respects, including more than 1,000 LTC professionals in attendance, 170 speakers and 72 exhibitors, including representatives from insurance carriers, third party administrators, actuarial consulting firms, reinsurers, claim and operational support vendors and providers, technology firms, insurance and health associations, among others. Many networking opportunities were available, including the exhibit hall, Sunday evening reception and the exhibitor/sponsor hospitality events. In addition, educational opportunities included both pre and post conference sessions as well as 52 discipline-oriented sessions organized into eight tracks, including actuarial; alternative solutions; claims & underwriting; combination products; legal, compliance & regulatory; finance, management & operations; marketing; and sales, distribution & technology. New this year, the conference also offered a social media lounge and demonstration rooms for exhibitors to showcase their products and services.

Pre-conference sessions included a CLTC Master Class and a new LTC Connection Sales Training session. Another exciting new offering by the conference this year was the Future Leaders Program, designed to provide early-to-mid level management and other non-management professionals with leadership potential the opportunity to participate in a half-day pre-conference seminar on Sunday afternoon. The program was designed to both boost interest in ILTCI among younger professionals and to encourage the next generation of industry leaders to develop the interdisciplinary knowledge and network necessary to excel at later stages of their careers.

Another successful community service project was held again this year with strong support provided by the ILTCI Association and the conference attendees. More than $5,000 in cash, gift cards, and 200 sundry items were collected for the USO and the Army Community Service (ACS) organization at Fort Carson in Colorado Springs. The USO donations will go towards helping America's troops and their families and ACS is supporting the Soldier and Family Assistance Center. Both organizations expressed their thanks and appreciation for all the help and support.

After a meet and greet session with conference attendees during the Sunday evening opening reception, Keynote Speaker Captain Kelly opened Monday morning with his presentation "Endeavour to Succeed." With his friendly demeanor and knack for storytelling, Captain Kelly entertained a packed house with his life's experiences, including growing up in New Jersey, going to college and flight school to become a Navy pilot, his combat missions in the Gulf War and achieving his lifelong dream of space exploration as commander of the Space Shuttle. Most

touching was Captain Kelly's willingness to share his feelings about the attempt on his wife's life, former U.S. Congresswoman Gabrielle Giffords, and how together they have fought to overcome this tragedy. Moving everyone from their seats, Captain Kelly concluded his presentation with his underpinning message that success in achieving one's goals can be achieved with hard work and a "never give up" attitude.

ACTUARIAL TRACK SUMMARY

The 2015 Actuarial track featured a total of eight sessions including a pre-conference session on the latest Intercompany experience study and a post-conference professionalism session. A financial reporting session provided an update on FASB's potential improvements to US GAAP and on the *Profits Followed by Losses* practice note. The "Technical Aspects of Rate Increase Work" session highlighted a rate reviewer's perspective, overviews of the drivers of adverse experience, the challenge of equity across various states, application of credibility, and aspects of state specific filings. "Public/Private Solutions and Collaboration in LTC" focused on the funding methods available, various reform designs, driving consumer behavior, plan structures, consumer needs/resources, demographic differences, and funding sources. Another session delved into how data analytics and predictive modeling can be used for LTC insurance. A session on Stochastic Modeling updated the crowd about the activities of the American Academy of Actuaries Principle Based Reserves Committee and the implications of volatility in LTC insurance on PBR. A session entitled "Selling Blocks of Business" featured three engaging speakers that discussed recent sales activity of LTC blocks from the buyers and sellers perspectives. That session wrapped with an engaging securities analyst who gave us Wall Street's view of LTC insurance. The post-conference professionalism session included thought-provoking case studies and insightful commentary from the American Academy of Actuaries' counsel Sheila Kalkunte.

ALTERNATIVE SOLUTIONS TRACK SUMMARY

The Alternative Solutions track produced seven sessions focused on a variety of innovative ways to better address the problems, risks, and costs of financing longterm care.

In the track's first session, speakers from The SCAN Foundation, AARP and the Urban Institute discussed a major data and economic modeling initiative that will provide new and better data to inform policy directions for financing LTC. The panel reviewed the project's goals, timing and key deliverables, as well as rationale for why better data is required to better inform the LTC public policy debate.

That session was followed by "Calculating the Value of Private LTC Insurance." The speakers examined the value of current product offerings to consumers, public payers and family caregivers. The impact of LTC insurance on Medicaid spend-down rates among nursing home claimants suggests a 50 to 60 percent lower rate of Medicaid spend down among today's privately insured cohort.

Speakers from RTI International and AARP presented the results from a national consumer survey in the session titled "Consumer View of Alternative LTC Solutions." Among their key findings were: 1) consumers lack education about LTC and continue to significantly underestimate their own likelihood of needing care, 2) consumers prefer voluntary, private sector solutions over government-run programs or mandates, but would accept a mandatory public plan if it could "do better" with respect to both coverage and price than private offerings, and 3) consumers are sensitive to price but continue to express interest in comprehensive coverage, a dilemma with LTC insurance.

The Bipartisan Policy Center (BPC), a Washington, D.C. think tank, is in the middle of a comprehensive study on LTC funding and services. Two BPC staff working on that study conducted an interactive session whereby the audience was asked to vote and provide feedback on several of the policy initiatives now under consideration by that group.

In the session "Economics of Using Savings," the panel explored the feasibility of using savings vehicles to help pay for LTC needs and discussed the pros and cons of several potential innovative approaches in this area. The session was framed by presentations on the current status of saving for retirement in general and the impact that having a LTC need has on retirement savings

"State Innovations for LTC Financing" provided a shift in focus to state-based efforts to innovate alternative solutions to the LTC challenge. A framework was presented for states to use in considering various reform pathways. Options ran the gamut from "status quo" to offering a comprehensive public option. The session also focused specifically on a variety of initiatives underway in Minnesota and explored their potential to inform the larger debate.

Three public sector veterans conducted a session entitled "LTC Financing: Are We Looking at this the Wrong Way" and discussed innovations to integrate acute care and LTC as a model for enhancing LTSS service delivery for older adults. The session used this framework to propose rethinking LTC coverage in the context of "integrated plans" offering a mix of acute care and LTC.

CLAIMS & UNDERWRITING TRACK SUMMARY

The "Lifestyle and Its Impact on LTC" session identified key components to maintaining a healthy lifestyle and whether or not adherence to them positively impacts morbidity. The session also presented wellness and fall prevention programs as well as improved results from the Department of Health and Human Services (DHHS) fall prevention demonstration.

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The "Medical Directors Roundtable" made an animated presentation including the presentation of complex cognitive LTC claim case studies and audience polling. The polling questions sparked well rounded discussions around potential eligibility, supporting data elements, frequency of re-evaluation as well as the utilization and value of available evaluation tools.

The session "SIU Roundtable: Various Approaches to Long Term Care Investigations" focused on the many different ways to approach a potential fraud investigation. The panel discussed how the utilization of investigative methods and techniques depends on the specific circumstances of the claim and the philosophy of the insurance carrier or organization. Additional topics included the advantages and disadvantages of utilizing different approaches, potential implications for adjudicating longterm care claims, interviewing, surveillance, integration of Special Investigations Units and legal issues.

The "Social Media & Forensic Accounting in LTC Investigations" session was a two-part session. The first part focused on the use of social media searches in longterm care investigations. It provided an introductory overview from a Special Investigation Unit/ Claims perspective, potential legal implications surrounding social media searches and an examination of specific court cases and how the courts have viewed the use of social media findings. The second part of the session focused on a forensic accountant's role in evaluating claim documentation submitted as covered expenses for longterm care and provided insight as to how a forensic accounting investigation could assist in the review of longterm care claim.

"Facility Eligibility: Not So Fast" examined the assessment and recertification methodologies that are utilized to quantify actual care needs for facility-based care. An analysis of current industry methodologies, potential alternative methodologies, and a review of recent pilot study results was completed. In addition, the session provided perspectives from claims examination to adjudication, as well as insight on effective ways to partner and collaborate with facilities in an effort to quantify policyholder care needs.

"Impacting Claims through Analytics" explored the use of analytics from various perspectives, including how analytics have helped industries outside of longterm care. This session included a review of the practical uses of analytics in the longterm care industry and the types of data needed to make analytics worthwhile. The challenges surrounding the collection of data in the longterm care industry were discussed, as well as how data gathered can be applied to make an impact on individual companies within the longterm care industry and the industry itself.

"The Great Debate" session addressed which benefit eligibility tools are most used throughout the industry for initial and ongoing eligibility, along with the advantages and disadvantages of each. Results of a pre-conference survey were discussed and a number of case studies were also reviewed.

COMBINATION PRODUCTS TRACK SUMMARY

This was the first year that combination products had its own track at the ILTCI conference. The track contained seven sessions.

A session entitled "Combo Product Intro: Basic Product Designs and Market Sizing" provided an update on the combination products market size and basic designs. The panel discussed a broad spectrum of products, including life combination products and information from a recent SOA research report on living benefit riders with medically related triggers on life or annuity products.

The "Annuity Combos" session explored current annuity combo designs and challenges and successes with those products in the market today. The panel addressed tax issues, underwriting, pricing synergies, and 1035 exchange opportunities. The session also compared life combos to annuity combos, while addressing the underlying question of what it is needed to make these products achieve their potential with producers and consumers in the future.

The "Filing Combination Products" session examined various regulatory requirements for filing both an accelerated death benefit rider and an accelerated death benefit rider for longterm care on a life insurance policy. The presentation focused on the key regulatory requirements of the Interstate Insurance Product Regulation Commission (IIPRC), the National Association of Insurance Commissioners (NAIC) LongTerm Care Model Act and Regulation, and the State of Florida.

The "Product Administration and Risk Management Process" session discussed how to interact with internal and external customers for success for combination products and what steps are important in the overall processing of the business. In addition, a reinsurance overview of the recent success of the combination products, the market outlook and an overview of the total risk management process was presented.

During a session titled "Underwriting Combo Products," three panelists discussed the different philosophies involved and tools used when underwriting longterm care riders to be attached to life insurance or annuities. Simplified and more thorough underwriting approaches were discussed, including examples of how sample applicants might be reviewed under both.

The "Combo Product Pricing: Considerations for Various Plan Designs" session explored the pricing considerations for the most common types of combination products including: linked products that add LTC riders to base life and annuity policies, and chronic ill-

ness riders. The panel discussed key risk elements to be considered in setting the assumptions, reviewed common pricing approaches and modelling considerations and highlighted the rate filing regulatory requirements.

The expanding Combo Market is dramatically enhancing product availability and diversity. In a session entitled "Combo Product Distribution: Suitability, Planning, CE Requirements," the panel helped to define and identify the moving parts of the inherent fiduciary responsibilities of these new and complicated sales. They examined risk considerations in the planning process, identified the most important considerations in evaluating the various product and rider options and outlined needed improvements in the required LTCI sales certification process to meet the evolution of product alternatives.

FINANCE, MANAGEMENT & OPERATIONS TRACK SUMMARY

The Finance, Management and Operations track hosted six informative sessions covering a wide variety of currently hot topics.

The track held two sessions focusing on risk management. In the "Reinstatement Risk Management" session, three case studies of challenging reinstatement situations were presented and session participants had the opportunity to think about the issues from three different vantage points—the customer, the insurance company and the legal representative of the customer. In "R&R: Risk and Reinsurance," session attendees learned how reinsurance can be valuable to carriers to manage capital needs and improve operational effectiveness.

This year, the track introduced a new session called the LTC CFO Round Table. Three financial leaders of LTC businesses, including leaders of both closed and open block LTC businesses and a leader of a third party administrator discussed a wide range of issues they face in managing their business.

"Reporting and Data Analysis for the Non-Actuary" presented options to blend standardized actuarial files for experience studies and model building purposes with a client controlled data warehouse to provide rapid decision making. The business impact and benefits of the approach were presented and several complex company-related problems were addressed.

In "Successful Partnering with Actuarial," operations professionals discussed several real life case studies where they worked well with Actuarial to achieve successful business outcomes and also situations where the partnership with Actuarial was not as effective as it could have been. The panelists discussed lessons learned from both perspectives.

Three distinct perspectives were presented in "Amazon, Zappos & Google: How do Customers Define Your Company?" The discussion focused on the client experience that is integral to preserving the existing client base that also impacts a company's ability to market to new clients. The panel presented the perspectives from a home office, producer and third-party administrator on the value of investing in the client experience space.

LEGAL, COMPLIANCE & REGULATORY TRACK SUMMARY

The "Litigation Update/Prevention" session hosted an interactive presentation on the current LTCI litigation environment. Keeping a careful eye on litigation trends has never been more important as more claim-related lawsuits present much greater exposure than ever before. The presenters provided a detailed analysis of current case law, focusing on four areas that have experienced increased litigation in recent years, highlighting the importance of having strong claims and policy owner services teams: class actions over claims issues, class actions concerning rate increase issues, law suits involving conflict and choice of law issues, and provider eligibility and credentialing issues.

The "Policyholder Communications" session focused on the risks and pitfalls associated with communicating with LTC policyholders, and best practices companies can utilize to avoid those risks and pitfalls. Presenting from the viewpoints of a LTC insurer, a third party administrator and outside counsel, the panelists discussed the specific issues and missteps that each has seen in communicating with LTC policyholders, many of whom are cognitively impaired. The discussion touched on all aspects of communication, including written, telephonic, electronic and social media, as well as best practices in reviewing and approving outgoing communications and training employees.

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In the session "A 360° Perspective – Grappling with the Challenges of LTC Rate Increases," there was a robust discussion of the realities and developments relating to rate increases, including an overview of the rate increase filing process, the wide range of state insurance department responses to rate increase filings, the challenges of negotiating ultimate acceptance of rate increases, emerging case law in this arena, the evolving rate stabilization regulatory environment, mitigating the impact of rate increases on policyholders, and disclosure.

"Through the Privacy Looking Glass" was a fascinating panel discussion on current privacy and data security issues and how they impact long term care insurers. The presentation covered compliance issues, privacy risk mitigation, breach statistics, a recap of recent breach litigation, and a discussion of privacy in the realm of genetic testing. The panel also focused on the use of genetic information by insurers in the underwriting process and legal regulations governing such use, including the privacy implications of collecting and using an individual's genetic information.

The "Regulation & Innovation" session was a panel discussion with three executive regulators, including a commissioner, deputy director and superintendent. They engaged in an energetic and candid conversation about the current and future state of the longterm care insurance business. All three spoke very openly about their views that the need for long termcare insurance is very real; they were just as open about their concerns in regulating the market.

MARKETING TRACK SUMMARY

The 2015 marketing track featured six topics that tackled a number of major issues related to improvements that will foster sales growth, as well as significant opportunities ahead of the LTCI industry.

The interactive session, "Automation in Distribution: Our Way Forward," polled the audience members on technological issues within the LTCI industry to determine where efforts and budgets should be focused, and what is the highest priority. A highlight of this session was a resounding call to action with regard to development and adoption of a standardized e-application being an avenue through which substantial growth can be achieved.

Turning to a significant opportunity, "The Group LTCI Marketplace: Dead End or New Path?" reviewed the dynamics of the market, the nuances that existed between carriers and product solutions, and case studies.

"Social Media: Smart or Smoke and Mirrors?" served as a continuation of the Sales, Distribution and Technology track's session on prospecting through LinkedIn, turning attention to other social media avenues worth pursuing and how to enhance marketing efforts through them.

"Protecting Our Future" brought in a panel with expertise in in-force management and product development. The panel provided the audience with their take on how the industry will move forward in terms of product evolution, as well as what changes to expect and how to tailor marketing to best position new policy designs.

"Combatting Commoditization: Restoring the Value Proposition" discussed the counterproductive phenomenon of price-based selling rather than value-based selling, and how LTCI has been commoditized due to this overemphasis on price. The discussion surveyed ways in which the value proposition can be restored to reinvigorate sales.

The marketing track concluded with a session discussing what is perhaps the biggest untapped opportunity for the LTCI industry. "Repositioning LTCI Towards the Middle Market Consumer: A New Paradigm" discussed divergences between the middle market consumer and the prototypical LTCI consumer, and how the industry must codify a new paradigm in terms of marketing and distribution to reposition itself for success within this market segment.

SALES, DISTRIBUTION & TECHNOLOGY TRACK SUMMARY

The Sales, Distribution and Technology track was significantly modified and expanded this year, and as expected, proved from the beginning both exhilarating and challenging. The track's sessions included not only brand-new topics, but first-time panelists.

Our focus on tomorrow is typified by the session "Business Succession: What if Your Policyholders Outlive Your Agency?" Given that applicants are buying younger than ever—and many agency principals are nearing retirement—this question was urgent. Bringing together three well-regarded business succession experts in the form of a Q&A panel, the session delved into the various transfer options available to buyer and seller, due diligence, valuation, and timeline, among others.

In a matter of years the United States will be a majority "multicultural" country. That was the premise of the session, "Diversity Marketing in LTC: The Invisible Markets We Ignore." The presentation proved wildly fascinating—and eye-opening. Afterward, agents reported that they were planning on jumping on this new material as soon as they returned home, while others immediately asked for the multimedia materials.

"Social Selling: How to Prospect and Generate Leads with LinkedIn" was the track's foothold into its "technology" focus. Accordingly, the session included a pre-eminent speaker on the subject. What followed was an extremely informative and tip-laden roadmap through LinkedIn page set-up and optimization. Agents who followed this practical advice will be more easily found than their competitors.

If you've ever tried to wield a large database of policyholders, agents, leads or what-have-you, then you understand the importance of a high-quality Customer Relationship Management software (CRM)—examples abound, although Salesforce and Ebix SmartOffice are probably the best known in our industry. In this session, we assembled a BGA, a carrier, and one of the vendors themselves to serve up advice in choosing a CRM and help in implementing adoption in your office.

Unless you've been living under a rock, you know there's been a sea change in the way LTCI has been sold. No longer do agents drive hours to see clients and make a "kitchen table" sale. Instead, agents are licensed in a dozen states or more, and make most or all of their solicitations by phone or screen share. While we wanted to address this zeitgeist, we wanted to explore a new area few had any exposure to: an actual internet-fed "phone bank." In "Secrets of the Best Remote Sellers," managers of three different but highly effective remote sales organizations were featured in a Q&A panel session: one from LTCI, one from Medicare supplement, and one from disability income.

Finally, in what was a most unusual and unscripted session, we instituted a tried-and-tested corporate brain game called Sailboat designed to shake up one's dogmas and energize one's creativity. Called, "Innovation Games—Let's Solve Some Industry Issues," participants were divided into small workgroups, each led by its own moderator. From there, they were tasked with brainstorming "anchors" which are holding back growth; then "sails" which might propel production. Each group presented their findings to the others.

Tuesday afternoon concluded with the general session "Views from Inside and Outside the Industry: Outlook of Market Trends and Premium Rate Stability." The idea for this session originated from a research project, jointly sponsored by the Society of Actuaries LTCI Section, the ILTCI Association, and the American Association of LongTerm Care Insurance. The purpose of the project is to study the general level of rate stability of current stand-alone LTCI product offerings relative to past product offerings. The study includes three product generations, all with different pricing assumptions, across three time periods, spanning calendar years 2000, 2007

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and 2014. Although the work on this project is still in motion, much work has been done and a portion of the session was dedicated to sharing the initial findings of this study.

Three distinguished speakers, each from different backgrounds, shared their unique perspective and independent views. Patricia Born, Ph.D., an economist from Florida State University, discussed the various moving parts within the economy that have influenced the LTCI industry. She provided an overview of the economic market for each of the three time periods in the research project, comparing actual outcomes with expectations. Dr. Born also shared her views of today's economy and how this could influence the LTCI industry moving forward. The session's second speaker was Jeffrey Lane, a ratings analyst from A.M. Best. Jeff discussed the market trends that have influenced A.M. Best's view of LTCI over the past 15 years, using as context the three time periods from the research study. Jeff also shared A.M. Best's current viewpoint about new companies entering the LTCI industry. Last to present was Roger Loomis, an actuary with Actuarial Resources Corporation. In non-technical terms, Roger presented the preliminary results of the research study. He illustrated and explained variance in results between the three time periods and discussed the outcomes at this stage of the project. Roger's compelling message was that today's products are better positioned to address concerns about risk and are poised to provide a more stable foundation for the future of the industry.

Tuesday evening featured the exhibit hall closing reception and the entertaining Comedy Night. Concluding the conference on Wednesday morning was the SOA Professionalism Course, the Advanced Sales & Marketing Program for CLTC Designated Professionals and a research and educational session presented by the Alzheimer's Association.

If you are interested in learning more about the conference or to view session Power Point presentations, visit *http://www.iltciconf.org*.

The 16th Annual Intercompany Long-Term Care Insurance Conference will be held March 13–16, 2016 at the Grand Hyatt in San Antonio, Texas. ■

Note: This is the abridged version of the article. The unabridged version will be published on the SOA website. The introduction and closing sections for this article are provided by Conference Chair David Kerr, principal and consulting actuary with Oliver Wyman, and Co-Chair Denise Liston, vice president with LifePlans, Inc. Track chairs provided session summaries on their respective tracks: Peggy Hauser and Peter Sutton for actuarial; John O'Leary and Eileen Tell for alternative solutions; Jacquie Careno, Jen Vey and Chuck Angiolillo for claims & underwriting; Vince Bodnar and Linda Chow for combination products; Rod Perkins, Nolan Tully and Marie Roche for legal, compliance & regulatory; Loretta Jacobs and Sharon Reed for finance, management & operations, Sandra Latham, Alex Ritter and Richard Hicks for marketing; and Steve Formann and Bob Stellato for sales, distribution & technology.

Long-Term Care Planning & Insurance for High-Net-Worth Clients

By William R. Borton

"I hope I die before I get old." – My Generation – The Who, 1965

Most of the boomers were just coming of age when Pete Townsend wrote My Generation. Now, 50 years later, most of us are still alive and will probably live for another 20, 30 or perhaps 40 years. We are living longer, but not necessarily better. While advances in medical technology and pharmaceuticals are keeping us alive longer, lifestyle-related chronic health conditions are taking their toll. Many are too busy living in the sandwich generation[1] to focus on planning for the future.

For most boomers, the burning question is "Will I have enough?" For many living beyond their means, saving too little or mortgaging their retirement to pay for college expenses, the answer is probably "no." Even for those who have amassed well over a million dollars, concerns about long-term care costs create real uncertainty.

I witnessed both my parents experience the downward spiral brought on by dementia. The burden of sustaining their lives was huge—emotional, physical, psychological and financial. Then in 2011, a close friend asked me to assist him in obtaining reliable long-term care insurance, a type of insurance with which I was only somewhat familiar. I agreed to explore the available options for the 74 year-old retired executive in earnest.

My research revealed stark realities about how many Americans spend their final days. I discovered there is a "huge hole" in the health care plan of nearly every American. A lifetime of working and saving can easily disappear in a matter of months. Living longer, for millions of Americans, may be one of the greatest crises facing our society today.

I am an independent life and health producer specializing in long-term care planning and insurance for high-net-worth clients. In my practice, I rely on the existing and evolving array of insurance products currently available to design creative risk transfer solutions for my clients. The industry volatility over the last several years has presented me with both challenges and opportunities. Sales of new long-term care insurance policies were plummeting, as reluctant consumers now had compelling reasons not to buy.

A SHIFTING ADVISOR'S PERSPECTIVE

For decades, the majority of expert advisors to the wealth management industry have been saying that long-term care insurance is not right for wealthy clients, mainly because they can afford to self-insure. Therefore, many advisers have been known to tell clients with $2 million to $3 million or more of invested assets that they don't need to worry about developing a strategy to fund a long-term health care risk because they have more than enough money to cover it on their own.

This advice has been changing. As fiduciaries, many advisers are probing this assumption a little further to see if it is really prudent. They are beginning to realize a sound plan for their client's retirement includes a long-term care strategy that addresses two critical components.

- To assess the financial impact a long-term health care event may have on the individual's retirement portfolio.
- To evaluate the emotional impact the event would have on family or friends.

Because they are not comfortable talking about the second component, many advisors focus solely on the first issue. The impact on the caregivers cannot be overlooked in long-term care planning.

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For these reasons, I focus on collaborating with RIAs and trust companies. While they are fiduciaries and have a legal obligation to do what's in their clients' best interests, they don't understand long-term care planning and insurance.

Over time, I have earned the confidence and trust of a growing number of fee-only advisors. Over time, I have educated them with regard to LTC planning and insurance. Many now see me as an extension of their team and afford me the "transfer of trust" they enjoy with their clients.

CREATIVE SOLUTIONS, AN EXAMPLE OF A DIVERSIFIED RISK MANAGEMENT PORTFOLIO

Advisors and their clients are beginning to understand that transferring a portion of their long-term care risk to an insurance company makes good sense. They understand the leverage, tax advantages, instant liquidity and professional care coordination that insurance affords them.

What they don't understand is paying a large premium every year for the rest of their lives for a product they hope they never need and that the insurance company can unilaterally increase.

What my clients really want is a policy that:

1. Has no elimination period
2. Provides a combination of indemnity and reimbursement benefits
3. Has guaranteed benefits whether care is needed or not
4. Has guaranteed premiums that can be flexible
5. Keeps pace with inflation

That one policy, unfortunately, does not exist. For most of my clients what provides the most effective solution is not one policy. In fact, a combination of policies provides the richest benefits that will cover a broader range of possible claim scenarios. "Diversified risk management portfolios" are individually tailored to the needs and preferences of each client. In this example, we show a couple with four different policies.

Let's take a couple in their late 50s, both reasonably heathy non-smokers, with $5MM liquid assets. I design **two identical traditional LTCI policies** underwritten by a carrier that offers an option to receive a portion of the monthly benefit in cash.

- $5,000 monthly LTC benefit
- 24 month benefit period
- Waiver of elimination period for home health care
- Shared benefits rider
- 3 percent compound inflation rider

The lifetime premium is reasonable because the benefits aren't rich. The use-it-or-lose-it objection is blunted with a shared benefits rider because of the high probability one spouse will need care. Concerns about rate increases are minimized by the relatively low premium and agreement that interest rates will likely rise, permitting the carrier to earn more on invested premiums.

For him, I design **a hybrid Universal Life policy**, with accelerated death benefit LTC rider. I may use a GUL, IUL or current assumption contract, depending on the couple's budget, overall objectives and preferences. The design may have a single premium, a limited pay or lifetime premiums and the following features:

> I have earned the confidence and trust of a growing number of fee-only advisors.

- $500,000 death benefit and LTC benefit pool
- 4 percent acceleration
- $20,000 monthly LTC benefit
- 25 month benefit period
- No inflation

Because probabilities suggest that he is likely to need care and die before her, and because the length of time he may need care is two years+/-, this approach provides him with the maximum leverage and her with the maximum residual death benefit if he needs care and a $500,000 addition to her LTC pool of dollars, if he dies without needing care. Because there is no inflation protection with hybrid policies, the LTC benefit is grossed up to offset inflation.

Alternatively, a similar policy with a chronic illness rider may be presented if indemnity is preferred and there are no concerns about permanency or the discounting of the death benefit.

For her, I design **a single premium life-linked policy**, which may have no elimination period, or a 90 day elimination period only for facility care. A return of premium rider is typically included. The policy also includes the following features:

- $180,000 death benefit
- $540,000 initial LTC benefit pool
- $7,500 monthly LTC benefit
- two year base acceleration benefit, with four year LTC extension of benefits rider
- 3 percent compound inflation

With her typically outliving him, having no natural caregiver and a significantly greater life expectancy, a six year benefit period is appropriate. There is a sufficient death benefit payable if she never needs care and a small residual one if she does. Inflation protection is included.

Clients and advisors like the flexibility and limited exposure to rate increases. He feels good about protecting her and not forcing other family members

to have to step in. She feels confident that she will be able to care for him and will be provided for after he is gone.

There are as many variations on the theme as there are clients, with ages, health histories, state approvals, sources of premiums and client preferences all helping to dictate the solution design.

PRODUCT INNOVATION

In order to gain a better understanding of the challenges and opportunities faced by the actuarial community, I spoke with Douglas Burkle, ASA, MAAA, Life & Linked Benefits Design Leader at Genworth. Doug has been a leader in the linked and hybrid product space for the last 21 years, first at Lincoln Financial where he designed and priced the MoneyGuard product line and now at Genworth, where he designed and priced Genworth's Total Living Coverage (TLC).

When I asked Doug why it seems carriers are more comfortable pricing linked benefit products and hybrids than traditional LTC insurance, he said his company, and perhaps two others he knows of, are equally comfortable pricing both types of products. They understand the dynamics of linked benefit products and are able to administer them because they have so many years of experience administering LTC claims.

"A carrier that wants to get into the business via a hybrid product, that's acceleration-only, has a choice to make. If they don't have the claims experience and systems capabilities, they will tend to want to administer as an indemnity because it's a lot easier, and go with a chronic illness product. They may also lack agents who have gone through the required CE and have the licenses necessary to sell a LTC reimbursement product."

I then asked Doug what trends he sees in the industry and with his competitors. He said with linked benefit products the trend is toward flexible premiums because there are a limited number of people who can afford a single premium product. I pointed out that even considering the time value of money, the leading carrier selling a flexible premium linked benefit policy seems to be charging an excessive premium for that flexibility. Doug suggested as the rest of the market catches up, the competition will cause carriers to decrease their flexible premiums so they are more in line with their single premium, thus benefiting the consumer.

In addition, he said "there has been a big ramp up over the last couple years of hybrid products (chronic illness and qualified long-term care acceleration only). If you look at the entire industry portfolio of linked and hybrid, or what we call combination marketplace, from 2008 through 2014 there has been around a 33 percent compound annual growth rate of new premium sales."

"Another area that is being looked at is the annuity-linked product market. As carriers anticipate a better interest rate environment, and there is more room within the interest crediting rate, then you can afford the long-term care rider charges. So, that's a market with growth potential once interest rates go up a little." When I expressed interest in a fixed index annuity with a LTC rider, Doug said because of the higher potential crediting rate, we may see movement there first.

When I brought up how chronic illness riders are making it easier to sell permanent life insurance, Doug pointed out that there has been a lot of debate about the chronic illness products that use an actuarial discount method, where policy owners may not exercise the acceleration option because the discount might be too large and they may just wait for the death benefit to be paid in full. At least two carriers he knows of state in their marketing materials that the age the client goes on claim, is approximately the percentage of the death benefit the client will receive. For example, if the client goes on claim at age 80, they would receive 80 percent of the death benefit. Doug believes carriers will begin to offer the option of an extra premium charge in return for a dollar-for-dollar payout when the insured becomes chronically ill. This will allow the policy owner to know the LTC benefit pool they are paying for.

I brought up that the industry is now promoting products with more limited benefits in response to consumer push back that LTCi is unaffordable. Doug said he expects we will continue to see cheaper products being rolled out to get the price tag down. He also said he thinks there will be a lot of innovation, with carriers tweaking all aspects of the traditional products. Some will be successful, and some not, and it will take several years to sort things out.

In my experience, carriers that fully underwrite life-linked policies offer the policy owner

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significantly more LTC leverage than those who rely only on simplified underwriting (telephone interview and prescription drug check). I asked Doug about this and he explained that with full underwriting, you get a better risk profile and can produce 20 percent to 25 percent more leverage than with simplified underwriting. My preference is for managing my clients' expectations and taking the time to go through full underwriting to get maximum LTC leverage. I understand from conversations with some of my BGA colleagues that many agents prefer simplified underwriting because they get faster policy issue and commission payment.

When I asked Doug about the future, he stated he thinks that most agents still think there is a strong future for traditional LTC insurance because it still affords the most leverage in the case of a long-term care event, but you do have the main objections (use-it-or-lose-it, non-guaranteed premiums) and they are both answered by a linked benefit product.

> … high-net-worth individuals understand the concepts of leverage and risk management. While they may have the ability to self-insure, they may lack liquidity.

To bring our conversation to a close, I circled back to my target market, high-net-worth clients. Doug said many high-net-worth individuals understand the concepts of leverage and risk management. While they may have the ability to self-insure, they may lack liquidity. In addition, many are in the position they are in because of a fiscally conservative lifestyle. They purchase long-term care insurance policy because it allows them to practice what they have been taught to do throughout their lives: minimize risk, work with experts and avoid selling assets below their value.

The LTC insurance industry should consider creating products that offer more guarantees and more flexibility. Things like more carriers offering linked products with the option to get better leverage through full underwriting, more hybrids with true LTC riders, chronic illness riders that offer full acceleration and traditional LTC insurance that is non-cancellable. While this is only a small sampling of ideas, this should give you something to think about. Our combined mission is critical. Time is of the essence. ■

ENDNOTE

1 *http://www.usatoday.com/story/news/nation/2015/05/21/pew-aging-family-support-america-germany-italy/27578831/*

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Are Cognitive Constraints a Barrier to Annuitization?

By Jeffrey R. Brown, Arie Kapteyn, Erzo F.P. Luttmer, and Olivia S. Mitchell

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INTRODUCTION

With the shift from defined benefit pensions to 401(k) plans, individuals are increasingly responsible not only for saving for retirement but also for drawing down their assets in retirement. These drawdown decisions require substantial cognitive effort and are very difficult for the average person. Yet most models of asset decumulation ignore the possibility that individuals may differ in their decision-making abilities. Indeed, many models suggest that consumers facing the risk of outliving their resources should find annuities of substantial value, but few people buy them. Researchers have advanced a host of plausible explanations for the limited take-up. But no single factor, or combination of factors, has solved the puzzle.

This *brief*, based on a recent study, examines whether consumers do not buy annuities because they find them hard to value.[1] Specifically, this research explores whether individuals differ in their ability to value a stream of annuity income relative to a lump sum, and whether this ability is correlated with measures of cognitive ability. These findings raise questions about whether consumers are able to make well-informed choices when confronted with a decision about whether to buy an annuity.

The discussion proceeds as follows. The first section briefly reviews the annuity literature. The second section describes an experiment to identify how difficult it is for individuals to value an annuity. The third section presents the results of the experiment. The final section concludes that annuities are hard for individuals to value, particularly those with lower cognitive ability.

ANNUITIES AND COGNITIVE LIMITATIONS

Annuities allow individuals to exchange a lump sum of wealth for an income stream that is guaranteed to last for life. Many studies have shown that the insurance feature of annuities is valuable and that an optimal decumulation path in retirement would involve annuitizing a very large fraction of assets.[2] These models, however, typically assume fully rational individuals who engage in sophisticated optimizing behavior in the face of uncertainty.

Yet a large and growing literature relates limitations in financial literacy and decision-making abilities to economic behavior. For example, researchers have found that households make mistakes when managing their financial affairs and often lack basic financial knowledge.[3] Research has also shown that financial literacy is correlated with investing in financial markets as well as participating in a retirement plan.[4] Yet other work has documented that cognitive abilities help explain retirement wealth accumula-tion.[5] Taken together, these and many other studies suggest that people differ in their financial decision making abilities and that these differences are important correlates of financial well-being late in life.

Specific to annuities, an emerging line of research suggests that retirees may not be making rational, well-informed decisions. A series of studies have examined the decisions of workers with defined benefit pensions who were given the option of taking a lump sum of similar actuarial value.[6] Unlike retirees with 401(k) plans, who almost never choose to annuitize, most studies find that well over half of retirees with DB pensions keep their annuities. The result may suggest a strong bias in favor of the pre-existing default—rather than rational, well-informed decisions.

Behavioral experiments show that individuals can be steered toward or away from annuities depending on how the product is described. In one experiment choosing an annuity was much more popular when it was presented in a "consumption" frame, which stressed the ability to consume for life, compared to an "investment" frame, which emphasized guaranteed returns for life. Another study found that men were more easily swayed than wom-

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> "Valuing annuities is hard, especially for individuals with less cognitive ability."

en. The fact that individuals are significantly influenced by framing and that gender has a large effect also implies that annuities are not easily valued.[7] These types of studies suggest that many individuals may have difficulty in making rational decisions about annuities, perhaps due both to the complexity of the product and their own cognitive limitations.

METHODOLOGY AND DATA

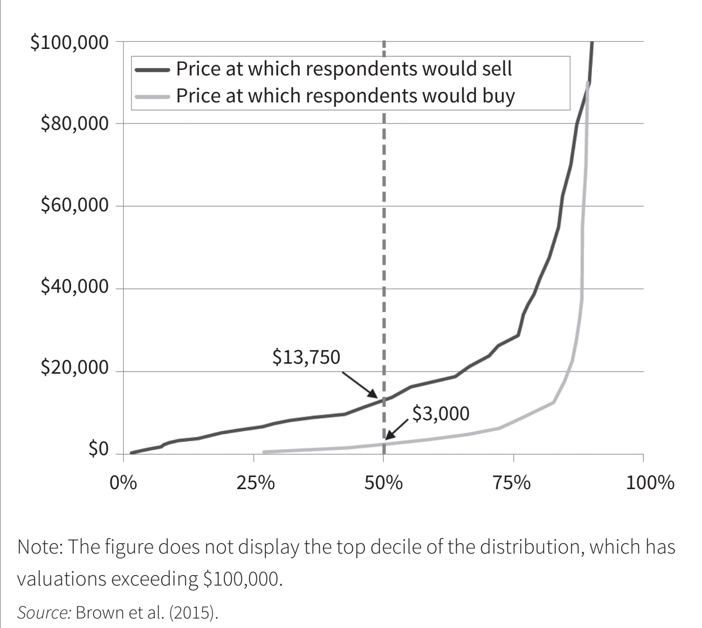
To test whether decision-making abilities influence annuitization decisions, 2,210 individuals from the American Life Panel, a sample broadly representative of the U.S. population, were asked to value hypothetical changes in their monthly Social Security benefit.[8] Social Security benefits are annuities that essentially all Americans know and understand. These benefits also lack complications found in private market annuities, such as the absence of inflation protection and counterparty risk. Individuals should thus find it easier to value a change in their Social Security benefit than a private market annuity.

Respondents in the experiment were asked to value both an increase and a decrease in their current (or expected) monthly benefit. To value an increase, or as a starting point, they were asked if they would pay $20,000 to raise their benefit by $100 a month. Depending on their answer, the amount was raised or lowered until the respondents identified a specific x-price they were willing to pay. To value a decrease, respondents were asked if they would accept $20,000 in exchange for a $100 cut in their monthly benefit, with the amount adjusted until it reached a price the respondents would accept to sell the $100 monthly annuity.

In theory, the value is that individuals place on an annuity would be the same whether they were buying or selling. However, if valuing an annuity is difficult, research indicates that individuals will only be willing to buy or sell when the deal is clearly advantageous: the respondents would only be willing to buy an additional $100 a month at a low price, and would only sell $100 a month at a higher price. Thus, the gap between the two prices should be significant, and the gap should widen as cognitive ability declines. The results, described in the next section, do show such a gap, along with the expected relationship with cognitive ability. As other factors could influence how individuals value annuities, the study also conducted a series of tests to examine competing explanations, which provide supporting evidence for the baseline results.

Figure 1

"Buy" and "Sell" Prices for a Hypothetical $100 Change in Social Security Benefit$



Note: The figure does not display the top decile of the distribution, which has valuations exceeding $100,000.

Source: Brown et al. (2015).

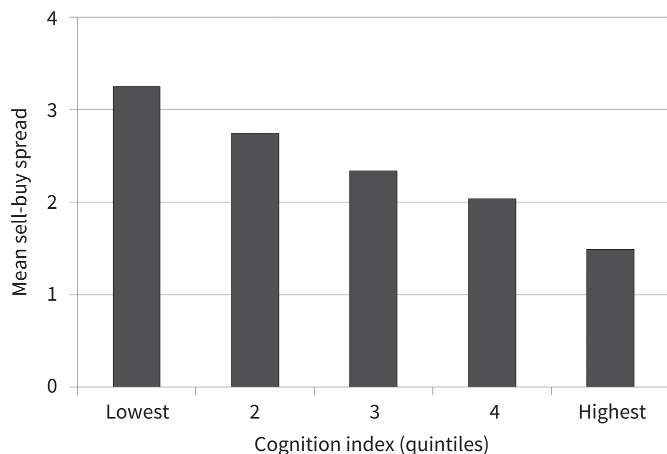
EVIDENCE ON HOW INDIVIDUALS VALUE ANNUITIES

The results of the baseline experiment are consistent with the notion that the respondents had difficulty valuing a $100 change in their Social Security annuity. Figure 1 on the next page presents the amounts that respondents were willing to pay and the amounts they were willing to accept for a $100 change in their monthly benefit. The figure shows that most respondents were only willing to buy the $100 annuity when the price was very low. The median price they were willing to pay was $3,000—an amount they would recoup in monthly payments in just two and a half years. And they were only willing to sell the $100 annuity at a much higher price: the median selling price was $13,750. As a point of reference, the actuarial value of $100 in Social Security benefits—using mortality and interest rate assumptions from the Social Security Administration's Trustees—is $16,855.[9]

Also consistent with the notion that valuing annuities is hard is the wide variation in these prices among the respondents, especially the prices that they were willing to accept to sell $100 in monthly benefits. About 5 percent would accept $1,500 or less—an amount far too low to be explained by any rational economic model. At the other extreme, about 15 percent of respondents demanded at least $60,000 and more than 6 percent at least $200,000. In the latter case, even if the lump sum yielded only 0.6 percent above inflation, just the *interest earnings* on this amount would replace the foregone Social Security benefit, leaving the $200,000 untouched.

Figure 2

Gap Between Annuity "Buy" and "Sell" Prices by Cognitive Ability



Note: The gap is the absolute value of the difference be-ween the log sell valuation and the log buy valuation of a 100 change in monthly Social Security benefits. ource: Brown et al. (2015).

Source: Brown et al. (2015).

If the gap between the buying and selling prices in Figure 1 (above) were due to the difficulty of valuing annuities, it should be larger for those with more limited cognitive ability. Figure 2 (above, left) shows the relationship between a broad measure of cognition—which covers financial literacy, numerical ability, and education level—and the gap between the logs of the prices that individuals are willing to buy and sell the $100 change in Social Security benefits. As expected, those with lower cognition do have a larger gap.[10] Regression analysis confirmed this pattern.

While these findings are consistent with the notion that complexity and limited cognitive ability make it difficult for individuals to value a stream of annuity payments, other factors could also be responsible. The study thus conducted a series of tests to gauge the robustness of the findings. Three of these tests are described below.[11]

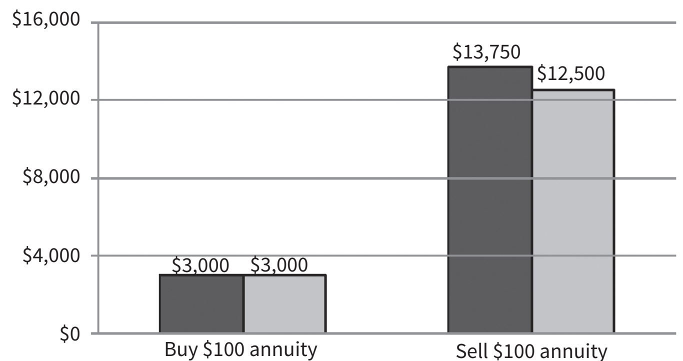
DO PARTICIPANTS SIMPLY PREFER WHAT THEY HAVE?

Previous research has shown that individuals tend to place a higher value on items that they already have; this inclination toward the status quo is known as the "endowment effect." For example, individuals who are given a coffee mug will sell it only at a much higher price than the price that they would pay for the mug if they did not have it.[12] A similar effect could be impeding individuals from buying or selling the $100 of monthly Social Security benefits.

To test for the endowment effect, the respondents were given an offer that was financially identical to the baseline offer, but this time the choice was not framed in the same way—i.e., it was not posed as a contrast between the status quo benefit and a change in that benefit. Instead, the choice was between two scenarios that both involved a change in the respondents' finances. Specifically, they were asked: 1) whether, *in addition to their base benefit*, they would prefer a $20,000 lump-sum payment or an additional $100 a month in their Social Security annuity; and 2) whether they would rather pay $20,000 or give up $100 a month from their base benefit. If the endowment effect is a significant factor behind the baseline responses in Figure 1, then removing the status quo reference from the question should elicit responses that differ from the baseline amounts.

Figure 3

Median "Buy" and "Sell" Prices for Question Framing With and Without Reference to the Status Quo



Source: Brown et al. (2015).

Interestingly, the responses turned out to be very similar.[13] When the status quo reference was removed, the median price that respondents were willing to pay for a $100 increase in monthly benefits remained $3,000 and the median amount they were willing to accept in exchange for a $100 cut declined only slightly, from $13,750 to $12,500 (see Figure 3, above, right). This finding suggests that endowment effects do not explain the observed results.

ARE PARTICIPANTS CASH STRAPPED?

Another factor that could affect the particularly low amounts that respondents are willing to pay for an additional $100 in annuity income is their own lack of financial resources. Those with such a "liquidity constraint" might respond—even to the hypothetical questions in the experiment—by offering only a modest amount.

The experiment tested for liquidity constraints by asking respondents about their ability to come up with the money needed to pay for the additional $100 in annuity income. Only 18 percent of respondents said that they were unable to come up with more money than they had agreed to pay. And half of

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this constrained group said that they would not pay more *even if they had the money*, so liquidity was not influencing their valuations. Finally, even when those with a liquidity constraint are excluded from the sample, a clear gap in valuations persists.

ARE PARTICIPANTS AFFECTED BY CHANGES IN QUESTION CUES?

If annuities are hard to value, participants may be affected by question cues—such as the starting value of the dollar amounts or the ordering of questions—that have no relevance to the financial deal being offered. The intuition here is that those with insufficient knowledge to determine the value of the annuity may be distracted by the cues, causing them to anchor their responses to the amounts used in the question.

To test for anchoring effects, various dollar amounts used in the baseline questions were changed. For example, these tests included: 1) varying the initial amount of the lump sum from $20,000 to $30,000 or $10,000; and 2) changing the order in which different sizes of the annuity increment were offered; for example, asking the respondent to value a $500 increase in Social Security benefits before valuing the baseline amount of $100. Regression analysis was then used to test how these changes affected the price at which respondents would sell their annuity. The results showed large, statistically significant anchoring effects. Specifically, using an initial lump sum of $30,000 increased respondents' "sell" price by nearly 20 percent. And asking respondents to value a larger annuity amount before the baseline amount increased the baseline sell price by about 70 percent. Separate regressions were run on those in the top and bottom quintiles of the cognition index, with the results suggesting that those with lower cognition are more sensitive to anchoring effects. In short, the effects of the irrelevant cues support the notion that respondents found it hard to value the annuity and thus were easily swayed.

CONCLUSION

Many individuals have difficulty valuing annuities and, as a result, may only actively buy an annuity when offered a very good deal. This finding is especially true for individuals with less cognitive ability. The findings suggest that the observed lack of annuitization does not necessarily mean that people are better off without annuities. The results are directly relevant to current policy debates. For example, U.S. policymakers have expressed interest in encouraging annuitization of balances in 401(k) plans, and a debate has emerged over whether to encourage or discourage "de-risking" efforts by corporate defined benefit pensions that allow retirees to choose a lump sum instead of an annuity. The findings of this study indicate that policymakers need to be aware that many individuals, on their own, are unable to make good decisions about managing their money in retirement. ■

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ENDNOTES

1 Brown et al. (2015).

2 See Yaari (1965); Davidoff, Brown, and Diamond (2005); and Peijnenburg, Nijman, and Werker (2010a; 2010b).

3 Lusardi and Mitchell (2014) provide a comprehensive overview of the literature.

4 For the propensity to invest in financial markets, see, for example, Arrondel, Debbich, and Savignac (2013). For retirement plan participation, see Fornero and Monticone (2011).

5 McArdle, Smith, and Willis (2011) and Banks, O'Dea, and Oldfield (2010).

6 See Hurd and Panis (2006); Benartzi, Previtero, and Thaler (2011); and Bütler and Teppa (2007).

7 See Brown et al. (2008) and Agnew et al. (2008).

8 For respondents who had not yet claimed, the study provided a projected benefit based on their earnings and self-reported expected claiming age.

9 Estimates that incorporate the insurance value provided by Social Security benefits are somewhat higher.

10 The analysis also tested the effects of the individual components of the cognition index and found similar results.

11 Brown et al. (2015) provides a more thorough discussion of these and other robustness tests.

12 Kahneman, Knetsch, and Thaler (1991).

13 These similarities are particularly striking because respondents were given the alternative offers and the baseline offers two weeks apart to reduce the likelihood that one set of responses would influence the other.

ABOUT THE CENTER

The mission of the Center for Retirement Research at Boston College is to produce first-class research and educational tools and forge a strong link between the academic community and decision-makers in and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception in 1998, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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Joint French Institut Des Actuaires and Society of Actuaries Project on LTCI

By Etienne Dupourque

This article is an update on the Joint Society of Actuaries and the French Institut des Actuaires project on longterm care insurance (LTCI). The project's goal is to examine the similarities and differences in the two markets and the related actuarial aspects. A session on this subject is planned for the 2015 SOA Annual Meeting & Exhibit in Austin.

The two markets show differences in the way governmental benefits tie to private insurance, thus causing private policies to be of different sizes in the markets—larger in the United States and smaller in France. The private market information is distinct with the French market holding experience information closely while the U.S. market shares experience through the SOA experience study effort—a blind study but available to all. The main data source outside the French insurer's own data is their reinsurer.

These differences, and many more, have informed actuaries in both countries and challenged them to think about other ways to do the work they are tasked with doing.

The project began in late September with participants meeting biweekly to listen to presentations and discuss aspects of the two markets. Additionally, three workshops have been started to look at the actuarial aspects of pricing, reserving and risk monitoring, as practiced in both countries. Summaries of the presentations are below.

Several misconceptions need to be clarified at the start:

- While French LTCI is healthy in terms of insurance company participation and market penetration, the U.S. population is better covered by U.S. companies: LTCI pays about 7 percent of annual LTC costs in the United States, while French insurance companies contribute 3 percent. However, the definition of LTC costs in each country needs to be clarified to make these estimates more relevant.
- While most French policies are stand-alone, they are not supplement to the national Social Security benefits, as Medicare Supplement policies are to Medicare in the United States. "Social Security," social insurance programs of the same name, "Sécurité Sociale" in French, are prominent in both countries but are very different.
- LTCI in France, as in the United States, is still marginal in the insurance market, and its risks are ill-defined.

U.S. MARKET, SUMMARY OF PRESENTATIONS

Since most *Long Term Care News* readers are familiar with U.S. LTC, we have only provided an outlined list of the U.S. speakers and topics of their presentations.

- **U.S. Insurance Market Past and Present**, Al Schmitz
- **Reasons U.S. Companies Exited the LTC Insurance Market**, Malcolm Cheung
  - Adverse experience
  - High capital requirements
  - Long-tailed risk
  - Regulatory restraints on rate increases
- **Overview of the U.S. Regulatory Environment**, Robert Eaton
  - State/federal nature of regulation
  - NAIC
  - Interstate compact
- **U.S. Regulatory Environment from a Regulator's Perspective**, Perry Kupferman discussed the governmental structure and how the insurance department functions.
- **US Actuarial Documents**—Robert Eaton
  - Actuarial memorandum
  - Annual rate certification
  - Rate increase filings
  - Annual statutory valuations
- **U.S. LTC Pricing Considerations**, Andrew Dalton
- **ShortTerm Care products**, Vincent Bodnar
- **U.S. Group Long Term Care Insurance**, Malcom Cheung
- **U.S. LTC Intercompany Study**, Matthew Morton
  - **Risk Management Practices for LTCI**, Jim Berger. SOA LTCI section sponsored research on volatility
- **US National Insurance**, Robert Yee
  - Spoke of his experiences with CLASS (Community Living and Assistance Services and Support) Act.
  - Unsuccessful Federal program found to be actuarially unsound.

FRENCH MARKET, SUMMARY OF PRESENTATIONS

As most *Long Term Care News* readers are less familiar with the French market, we have provided a longer summary of these topics.

Long-Term Care and the context of social insurance in France, Vincent Lepez

In 1996, about 50,000 people 60 years and older received benefits from the national

LTCI coverage. In 2011, 1,200,000 beneficiaries received €6 billion (about US$8 billion) in benefits. Between 2010 and 2050, the number of beneficiaries is expected to more than double. The 2002 introduction of a formal public LTCI program, Allocation Personnalisée d'Autonomie (APA), and a national claim evaluation grid, Autonomie Gérontologie Groupes Iso-Ressources (AGGIR), have helped the private LTCI market. APA is a monthly cash payment to eligible beneficiaries. Eligibility is based on age (beneficiaries must be 60 or older) and the GIR (Groupes Iso-Ressources) level of the AGGIR grid.

National Reforms and Debate in France, Néfissa Sator

The 85 and older population is expected to double in 10 years. In 2010, a debate on LTC for both the elderly and the disabled was initiated by the national government, with participation of the Institut des Actuaires to wrestle with the definition of risk, data, portability, risk monitoring, and Solvency II.

An Overview of the French LTC Market, Géraldine Julliard

In 1985, individual policies were introduced for total dependency (four out of six activities of daily living (ADLs)). In 1995, partial dependency (two out of six ADLs) was added as an option, and LTC was introduced to group insurance. In 2002, AGGIR was added to ADL as a benefit trigger in policies, and LTC direct services were introduced to beneficiaries and close relations ("proches").

As of 2013, 5.7 million people were covered, with 70 percent covered by individual policies, 30 percent by group contracts, and 35 percent of premium has been paid in claims. The average annual premium is €400, for an average annual benefit of €7,200. There were about 25,000 open claims. BancAssurance accounts for almost half of the premium and is the fastest growing means of marketing LTCI.

In 2013, FFSA (Fédération Française des Sociétes d'Assurances) introduced the label GAD (Garantie Assurance Dépendance) to bring a minimum standard and uniformity to LTCI policies. FFSA plays the role of a combined American Council of Life Insurers (ACLI) & America's Health Insurance Plans (AHIP), and represents 234 insurance companies, or 90 percent of the insurance market, with €190B in premiums, €160B in benefits paid, and €1.9T in assets.

French and European regulation, François Lusson.

LTC risk is difficult to manage due to multiple definitions. Different contracts may use the same terms, but the risks involved are different (hence GAD). LTCI is a small part of most insurers' portfolio and usually noticed only when regulators intervene. European Regulation considers LTCI non-Life, and there is no direction from the French regulatory authority, Autorité de Contrôle Prudentiel. The Social Security code, which regulates most group contracts, also regards LTCI as non-life, and LTC policies are often developed and distributed as a non-life. However, Solvency II's treatment of LTCI as a life product with level premium raises capital requirements to unsustainable levels.

LTC legal and data, Agnès Canarelli

In September 2014, a LTC specific law was enacted, Adaptation de la société au vieillissement (adaptation of society to its aging population). It addresses the anticipation of the loss of independence, the access to individual technical aid prevention, and the adaptation to the aging of society. It also includes a component on habitat for the elderly. The law provides directives for accompanying the elderly through the loss of autonomy and allows higher monthly aid ceilings for home benefits, but the national program remains based on income. It created respite care benefits for caregivers. For governance of the law, a High Council on Family and Life Cycles was created, strengthening the role of the Caisse Nationale de Solidarité pour l'autonomie (CNSA), , which administers the national LTC social insurance program and concentrates on improving the rights and quality of life of the disabled population, irrespective of age.

In France, reliable LTC data is needed for risk modeling, for actual-to-expected, and for Solvency II requirements. Currently companies rely on public surveys from national statistical organizations.

French Individual Market, Jean Pierre Decourcelle

There are 25 insurance companies in the market, with 75 products. 90 percent of policies are stand alone, with the remaining 10 percent being combo products. 1.6 million individuals are covered by stand-alone policies with lifetime monthly annuity policies. These policies amount to about €500 million in annual premium. The average premium is €400/year for full coverage, and €500 for full & partial coverage. (Author's note: U.S. average premium is $3,000). The average issue age is 61. Most policies have a waiting period of up to three years (0 for accident, one for non-cognitive, three for cognitive) where premiums are refunded but coverage does not occur. In addition, a three month elimination period applies. Benefits start based on a high ADL trigger of four out of six. The average monthly benefit is €600, 40% of which are paid for partial coverage. Partial coverage starts at a lower threshold (two out of six ADL) but benefits are lower, 50 to 60 percent of full benefits. At the onset of a claim a small lump sum benefit is paid for home modification. Most policies have a reduced paid up provision after the policy has been inforce at least eight years. Newer products offer a lump sum benefit instead of a life annuity. Prevention and assistance services are also offered.

French LTC Group Insurance Market, Adeline Gerard

Participation is mostly compulsory. Benefits for employees are the same as those for individual products, with lower monthly annuity amounts. A lump sum benefit is made if a parent is disabled. Facultative contracts are available for retirees and employees leaving the company. Most employers provide tax deductible contributions

CONTINUED ON PAGE 30

while employee contributions may or may not be deductible depending upon which of the three insurance codes regulates the product. One premium level applies for all employees and one for all retirees. Some contracts have indexed benefits. Mandatory group life insurance contracts pay for LTC premium after retirement. Group contracts are often negotiated by various parties, like unions or administrative boards.

LTC for Public Employees Product, Laure Chatel

Four million lives covered, with €200 monthly benefit. No paid up value is available at the end of employment. LTC coverage is a rider to medical expense insurance coverage.

MGEN (Mutuelle Générale de l'Éducation Nationale) Public Teacher Group Policy, Jacqueline Taboulet

Coverage started in 2010, for over 1,000,000 employees of the Department of Education. It also covers 3,000,000 spouses and children and 750,000 retirees. Premium is part of a health, life, disability, credit, and mortgage insurance coverage. A waiting period of three years applies during which coverage is cancelled if a claim occurs. Benefits are a €120 monthly annuity and a €500 lump sum if confined at home after six months.

Overview of the French Unit-Based Group LTCI, Bertrand Boivin-Champeaux and Philippe Berquin

Group LTCI is sold through paritarian insurance institutions, not-for-profit organizations that are co-owned and co-managed by labor and employer unions and provide insurance coverage to employees for life and disability (or income protection, 47 percent of the 18 million employees in France), health (45 percent), and pension and LTC (8 percent, mostly in Pension). 85 percent of the workforce is covered with income protection plans, 100 percent with health plans, and 60 percent with pension plans. Paritarian insurers are the leader in group health insurance, with €24B in premium, ahead of insurance companies and mutuals. They hold €130B in assets. Group LTCI has been sold since the 90s, sponsored mostly by large companies and some industry-wide plans (e.g., lawyers, fish retailers). LTCI showed very modest growth until 2000s, but some improvement from 2005 to 2010, especially for individual policies. At the end of 2014, there were 5.7M individual and group plan participants for about €600M premium (Yearly Renewable Term and lifetime level premium coverage). Group LTCI market has around three million inforce certificates and €130M in premium. GLTCI market has doubled during 2005-2015. Unit based benefit GLTCI has roughly 100,000 certificates inforce and €12M in premium as of the end of 2014.

HOW IT WORKS:

Accumulation (employment) period: contributions are turned into LTC units. A monthly tax deductible contribution is paid by employer and employee on a 60/40 or 50/50 basis. Contributions are converted into 'LTC units' using a buying rate (e.g., 1€ for 1 LTC unit). Employees have an account where all their accumulated units are recorded. Price of units is determined annually by age of employee and is shown in a table attached to the LTCI plan. There is no underwriting when employees are automatically enrolled and no waiting period applies. Spouses and other family may be covered after underwriting. If the employee leaves the employer or retires, coverage is fully portable with accumulated units kept by the individual. He or she may continue to pay premiums to purchase supplementary LTC units, without underwriting, if election occurs within a six to twelve months period after the end of employment. This period applies even after retirement. When the former employee stops contributing, he or she will have lifetime coverage, with no reduction in the number of LTC units.

BENEFIT PERIOD: LTC units are turned into benefits.

Plan design and benefits requirements: A guarantee is granted during the lifetime of the employee from the first contribution payment. Benefit = number of LTC units × benefits value of one LTC unit, with a minimum benefit of €300/€500 a month, after a minimum contribution period. Benefits are paid under the condition that a participant is unable to accomplish a number of activities of daily living (three out of four or four out of six ADLs), or if cognitively impaired, or recognized as heavily or partially dependent under the national grid (e.g., GIR 1, GIR 2, or GIR 3). When a person is recognized as partially dependent under the national grid (GIR 3) or under ADL conditions (2 ADLs), the monthly benefit is reduced by 25 to 50 percent.

Pricing the LTC unit: The LTC unit is priced using prospective mortality relevant for the group of employees insured. It considers the probability of being alive at each year in the future. Variations are considered between full and partial dependency prevalence rates, between ages, and between genders. The sum of actuarial present values of one LTC unit, for each year in the future, for each age and gender, and the premium expenses are added. The accumulated benefit should exceed the minimum amount guaranteed before a certain age, 70 or 75.

Estimating Active Lives Reserves: Use the same basis as for pricing. It is the sum of actuarial present values of accumulated LTC points for each year in the future, adding administrative expenses.

Estimating claims reserves: Mortality tables must be relevant for totally or partially dependent persons. Tables need the probabilities of category transfers, from partial dependence to non-dependence or to total dependence, and from total dependence to partial dependence. Then compute the sum of actuarial present value of benefits for each year in the future, adding administrative expenses.

Premium adjustments: These are made following the analysis of actuarial gains and losses of the plan, depending on the evolution of the insured pool

(requires available data and specific surveys on dependency). Premium adjustments may consist in an increase in the price of LTC units, not necessarily in an increase of contributions. Underestimated reserves for accumulated LTC units can be difficult to correct with only premium adjustments if underestimation is not identified early. Premium adjustments should be as frequent as necessary, without delay. The accumulated number of LTC units can be reduced if the insured has stopped contributing. The maximum rate of reduction has to be in line with premium adjustments. As the duration of liabilities is long (30 to 40 years), Asset Liability Management is very important. It is possible to cap the annual indexation of benefits value of a LTC unit.

	United States	France
Benefit Type	expense reimbursement	cash
Benefit Options	many	few
Assumptions	aggressive	conservative (some use no lapse)
Premium Increase	difficult; need state approval	part of contract; no preapproval
Benefit Trigger	low; 2 ADL and elimination period	high; 4 ADL and waiting period
Benefit Duration	trending to limited	lifetime
Claim Evaluation Tools	ADL, cognitive	AGGIR, ADL, cognitive
Underwriting Tools	application, phone and face-to-face interviews, medical history	under 70: short questionnaire; 70 & over: long questionnaire, and for larger amounts, medical history and proof of income (less costly than in the US)

Reinsurance in France, Florence Durousseau

Reinsurance has an important role in risk sharing, capital, expertise, and research, as reinsurers have access to worldwide data. LTC is reinsured exclusively on a coinsurance basis. Reliance on reinsurers varies from 100 percent coinsurance (with most LTCI operations such as underwriting and claims) for direct companies with small portfolios, to multiple reinsurance pools with a maximum of 25 percent per reinsurer for the largest portfolios.

Long Term Care Insurance Data with French reinsurers, Ilan Cohen

Reinsurers have access to large multinational databases. Probability rates are derived for lapse, incidence, mortality, and transition, distinguishing between active and disabled lives mortality, full lapse, and reduced paid-up. Claim amounts are categorized by full, partial, and lump sum benefits. Distribution channels and underwriting generations are also considered. Scarcity of data at low and high ages presents a challenge and requires using public surveys such as PAQUID (Personnes Agées QUID); Social Security data is not accessible to insurance companies. It is difficult to estimate trends in practices such as underwriting and claim eligibility as there is no uniform definition of the LTC risk and there is no LTC-specific credibility theory. A semi-Markov model is used for pricing and reserving.

Underwriting in the United States and France, Nathalie Racco

The SOA Annual Meeting session will be held Monday, October 12, from 10:00 –11:15 a.m. Néfissa Sator and Vincent Lepez, two French participants, and Jim Berger and Robert Eaton, two U.S. participants, will share with us their perspectives. A review of the complete online version of this article is recommended for Annual Meeting session attendees to accelerate understanding of the many similarities and difference of LTCI in the two countries that will be discussed. We hope to see you there. ■

Etienne Dupourque, FSA, MAAA, is a consultant in Bellows Falls, Vt. He can be reached at *etienne@dupourque.com.*

Long Term Care Insurance Section Council: 2015 Survey Results

By Joseph J. Furlong

The Long Term Care Insurance Section Council would like to thank all those who participated in our survey. In case you missed it, it was sent out just prior to the 2015 ILTCi Conference to past attendees. We had 200 respondents. The results were interesting and contained a few surprises. Here are some of the results.

The Things You Like or Value: 105 of 184 respondents indicated that receiving printed copies of the ***Long-Term Care News***—yes, this very publication—is very valuable. It is nice to know the efforts of the authors and staff, including the current editor Juliet Spector, have not gone unnoticed.

Even more impressive, 118 of 184 respondents highly value specialized projects, such as, the ***National Conversation on LTC***, the periodic ***LTC Experience Studies***, and the ***LTC Delphi Study*** that are co-sponsored and supported by the council. It is apparent that the hard work of the volunteers and SOA staff behind these efforts has paid off.

The feedback on what we should continue to do came back loud and clear. Overseeing the SOA LTC Experience Study (175/183) and Championing new LTCi related research (169/183) were the big winners. You can be assured the Long Term Care Insurance Section Council will continue its efforts toward these initiatives.

Some Surprising Results: We will file the following items under "What Needs a Little Work." 61 percent of respondents were not aware that paid attendance to the annual ILTCi Conference automatically made them members of the Long Term Care Insurance Section of the SOA. Yes, it's true.

Remarkably, 69 percent of respondents rarely visit the Long Term Care Insurance section's web page (*www.soa.org/ltc/*). I'm not an actuary but it seems like there is some discrepancy between the perceived value of exposure to specialized projects and the section's newsletter versus the traffic on our website. I challenge everyone reading this article to take a few minutes and go check-out our website. Of particular interest might be the links to resources and research.

The section council is considering additional "advertising" or promotion of the site and the section in general so that we can be of the most value to our members and the industry so, stay tuned.

The Long Term Care Insurance Section Council is committed to serving its members and the Long Term Care insurance industry at large. In order to succeed, we need input and participation from our members. I would like to once again thank all those who participated in this survey and I look forward to seeing an even greater number of responses in our next survey. ■

Joseph J. Furlong, LTCP, is director of Claims for U.S. Individual Health at RGA. He can be contacted at jfurlong@rgare.com.

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Call for Papers

The Committee on Living to 100 Research Symposia requests professionals, knowledgeable in the important area of longevity and its consequences, to prepare a high quality paper for presentation for the 2017 Living to 100 Symposium in Orlando, Florida. The topics of interest include, but are not limited to:

- Theories on how and why we age;
- Methodologies for estimating future rates of survival;
- Implications for society, institutions and individuals, as well as changes needed to support a growing aging population; and
- Applications of existing or new longevity theories and methods for actuarial practice.

Please submit an abstract or outline of your proposed paper by Sept. 30, 2015. The abstract should include a brief description of the subject of the paper, data sources and methods to be used, key items to be covered, and how your paper will contribute to current knowledge, theory and/or methodology.

A brief curriculum vitae or resume is also required.
Submit the information by email to:

Jan Schuh
Sr. Research Administrator
Email: *jschuh@soa.org*

Learn more about the call for papers, including the complete topic list, by going to Livingto100.soa.org. Questions may be directed to Ronora Stryker, Research Actuary, at *rstryker@soa.org*.

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