LONG TERM CARE INSURANCE 1980 -2015

Long term care insurance, the newcomer to the life insurance product line has certainly come a long way over the last 35 years. It has changed from a non-consumer friendly product to a very cost effective means of providing tax free funds to pay for all or part of the expenses of an extended long term care event. According to a US Department of Health & Human Services Report 2014.

"Someone turning age 65 today has almost a 70% chance of needing some type of long term care support services in their remaining years"

History of Long Term Care Insurance

When long term nursing care insurance first made its appearance on the marketplace there was no frame of reference as to judge the products relevance, viability nor was there any information on Google about the subject. YouTube creator had not yet been born so there were no videos explaining what to look for in a long term care insurance product. The early 1980's were the stone ages of long term care insurance as there were only 2 insurers marketing the product as a protection against getting old and having to use your money to have to pay for extended care at home or in a nursing home. Assisted living facilities had not yet made their presence as an alternative to staying at home or in an institutional nursing facility. Further Vince Russo had not yet become President of a budding organization called NAELA, the National Academy of Elder Law Attorney's.

Because the concept and the product was brand new, many people that purchased these first generation products weren't fully aware of what they were buying and most didn't know that they weren't covered for illnesses such as Alzheimer's, as there was a clause in the contract stating that before one could collect a benefit they had to first spend 3 days in a hospital. However various degenerative illness such as Alzheimer's didn't ever require hospitalization. The requisites for qualifying for home care benefits with both companies necessitated that a person first spend 3 days in a hospital before they were eligible to collect benefits under their home care provisions. It didn't make sense, but that's the way the provisions in the early contracts were written.

Unfortunately many un-informed, prospective buyers didn't know what questions to ask but were interested in the idea of being protected against the risk of having to pay for the costs associated with nursing home or home care costs out of their own pocket.

As a result of the Insurance Industry's reaching out to their field force of selective agents and brokers for their feedback, they combined their input and in the mid to late 1980's, came out with a more consumer friendly product which to this day makes up the basic provisions of a quality comprehensive more appealing long term care Insurance product. One which does an excellent job of supplementing the costs of paying for one's long term care expenses.

What is Long Term Care Insurance?

A long-term insurance contract can be purchased to provide a set dollar amount of $100 to $500 plus an annual inflation factor on a daily basis. The coverage can pay a benefit for a minimum of two years, up to a maximum of six years, after a 90- to 100-day waiting period. Most contracts are of a comprehensive nature, meaning they will pay for care in an insured's home, an assisted living facility, or in a skilled nursing facility. They will pay for all three levels of care, custodial care, as well as skilled care and anything in between.

Having a long-term care insurance contract provides an Insured person with the dollars necessary to pay for some or all of the expenses associated with their care, and will also provide them with independence and peace of mind, knowing they'll never be a burden to their family.

The Market

Early on people began realizing the large financial risks associated with having to pay for their long term care costs. To further sound the alarm, Insurance brokers and agents, armed with a new product to sell, were quoting statistics from a just released study reported by the Journal of the American Medical Association, JAMA stating that 43% of individuals that reached age 65 would need some form of long term care during their lifetimes, that 7 out of 10 couples would have at least one family member requiring long term care, and that the average length of stay was a little less than 3 years. Compound that with an onslaught of

Elder Law attorney's that were informing potential clients via educational seminars about how to best pay for pay for long term care costs by re-arranging their assets so as to qualify for Medicaid and combining that with a long term care contract with a 3 year benefit period. The market was buzzing with every Insurer wanting to be the market leader and boast the highest number of long term care Insurance policies in force.

The Elder Law Strategy

In an attempt to make up for the fact that if an individual came down with a stroke or cancer Medicaid would pay for their care. But if an individual came down with the wrong type of an illness, such as Alzheimer's or any of the other degenerative diseases i.e. M.S or A.L.S, then they would have to pay for their care on their own. So, to even the odds of this roulette wheel of Illness, it became apparent to most seniors that a consult with an elder law attorney made sense as one could effectively re-position their assets so that they were able to qualify for Medicaid after a waiting period. An Insurance adviser would then be quick to point out that the initial waiting period could be paid for with a long term care insurance policy. The entire package made a great deal of sense for a client wanting to protect their assets.

The Governments Strategy

As a result of all the media attention and an onslaught of educational seminars by elder law attorney's advising seniors how to use long term care Insurance in conjunction with asset shifting techniques, the number of insurance company's offering long term care Insurance increased significantly. The subject of paying for long term care costs was on every one's mind. That popularity also included the federal and state government that were concerned about an increasing number of individuals that were successfully applying for and being approved for Medicaid to pay for their long term care costs. In an attempt to make it more difficult for individuals to qualify for Medicaid, the late 80's and early 1990's found the federal and many state governments increasing the waiting period for Medicaid eligibility from 24 to 30 months and then again to 36 months. Despite the increased waiting period the appeal of combining the planning strategies of **3**

re-arranging and shifting the ownership of assets to another individual or trust, combined with a 36 month benefit period for a long term nursing care insurance policy became a very popular strategy. The 3 year Medicaid eligibility period was so well associated with the 3 year long term nursing Insurance benefit period, that when the government increased the Medicaid eligibility period to 5 years, many individuals that purchased long term care insurance policies with a 3 year benefit period were expecting the insurance companies to also increase their benefit period to 5 years to match the new Medicaid eligibility period, in error.

The Partnership Strategy

As a matter of fact the combined strategy was so popular that in 2005, long term care services comprised the largest portion of Medicaid expenditures in most states. This caused the federal and state government to look for additional ways to halt this expansion& hold costs on these increasing expenses. One of the more successful programs was created by the Robert Wood Johnson Foundation, who in conjunction with several Insurance companies in 1988, supported States in pioneering new long term nursing care insurance products with Medicaid asset protection provisions. This strategy was designed to encourage people to buy a basic 3 year long term care insurance policy. And if after 3 years the individual still needed long term care then the individual could qualify for Medicaid eligibility without having to give up their assets. This program became known as the "Long Term Care Partnership" program and with the passage of the 2005 Deficit Reduction Act has turned into as a viable option for states to better manage their long term care expenditures and offer some consumers an affordable and better regulated Insurance product. This strategy is not a good fit for all consumers as there are various age and income guidelines and qualifications which makes it unattractive for individuals over the age of 70, and for those with a high monthly pension, as there is an income means test to determine ones qualifications. By the early 2000's the long term care marketplace had only appealed to less than 8% of the population. The contributing factors for this low participation rate was; high premium costs, many individuals rationalizing it won't happen to me, and what if I pay all those years and then I die and never need to collect a benefit.

Pricing Assumptions

Speaking of price, In the Insurance Industries haste to bring a long term nursing care insurance product to market, the actuaries did a terrible job of properly pricing the product. One can argue whether this initial low price that later had to be significantly increased many times, was an intentional lure to introduce the product, with the intent of capturing a new market, or whether the actuaries actually made a mistake. One thing we do know is that the actuaries didn't take into consideration the sustained reduced interest rates, nor did they believe the retention of these products, and benefit utilization would be as high as they have proven to be. The Insurance Industry assumed an average lapse rate of 8-9%, but over a 25-30 year period the actual rate at which Insured's dropped their coverage was under 2%. The combination of both factors is what caused the premiums to have to rise significantly. So just as those 65 -75 year olds that initially purchased their contracts were turning 80-90 many of them went on claim. During 2007-2008 problems started brewing in the long term insurance marketplace. At that point many insurers began requesting rate hikes in order to keep pace with actual claims being paid, as well as to make up for the reduced earnings, as a result of sustained low interest rates they hadn't counted on either.

As quickly as Insurer's began entering the long term care marketplace in the 80's and 90's that's how quickly they started dropping out of that market place starting in 2009 -2011. Once the actuaries realized they couldn't solve their financial problems through rate hikes alone, they then began withdrawing their products from the marketplace. [1] Guardian decided to get out of the LTCI business following on the heels of Metropolitan Life and John Hancock Insurance Company's exit. The pullout affected the larger, as well as the smaller Insurers.

Combination /Linked Products

By 2012 all Insurers had already raised rates and all but 5-6 major carriers had discontinued offering long term care contracts coverage to the general public, and it still wasn't sufficient to halt the red ink. That's when various insurers began transferring more of the risk from themselves onto the Insured's. They did this by curtailing their offerings of Inflation options, by no longer offering husband wife

1 Investment News Feb 2011, Yet another Insurer bows out of the LTCI biz.

discounts, by discontinuing to offer unisex rates and began charging women a higher premium [2]. All in all the insurers were doing all they could to begin shifting more of the risk from the insurance companies over to the insured's. This trend continued until 2012 at which time the Insurance Industry took its largest step to begin transferring more and more of the risk to the Insured rather than keeping it all for themselves. They did this by offering a Combo or Linked product which allowed the Insurance Company to pay for an Insured's long term care expense out of the Insured's own combo/linked life Insurance policy's death benefit. As time went by this new strategy which came about as a result of the recently enacted provisions of the Pension Protection Act began making up a larger percentage of all new life Insurance sales. [3] throughout the Country.

Combination Linked Strategies

Total annual premiums for the new life combination/linked products reached $2.6 Billion in 2013 representing 13 % of total individual life Insurance new premium. Approximately 98,000 life combination policies were sold in 2013, an increase of 18% compared with 2012 results, and this number has been steadily increasing over the last 5 years. [4] Quite a difference from the 8% market penetration achieved by the total traditional standalone long term nursing care Insurance products sold during the first 28 years of its existence. It's important to take a moment to list the significant reasons for this remarkable statistic. People resisted purchasing the traditional standalone long term care Insurance product for 3 reasons;

1. What if I pay the premium & never use the benefit? Use it or Lose it.
2. Reluctance to pay a unnecessarily high premium
3. It will be more economical if I just self -Insure myself.

2. AALTCI, Insurers charge women higher premiums due to higher utilization.

3. Limra Study Combo products record 5th year of double digit growth in 2013

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So the Insurance industry took aim at those 3 points and developed a consumer friendly product that took away the "Use it or Lose it "mentality by allowing the insured to either access the benefit for a long term care expense during the course of the insured's lifetime, if needed to pay for a long term care expense, or at death if it was never used.

Secondly they used the tax free benefit status of a life Insurance product to offer the Insured the ability to withdraw the proceeds of the death benefit on a tax free basis to be used for a long term care expense. Doing so made it significantly more advantageous as they were using a leveraged tax free dollar rather than an after tax, non- leveraged dollar to pay for a long term care expense. This of course resulted in the most economical manner to pay for a long term care expense, far more advantageous than self -Insuring.

It should be noted that there are two ways to access these benefits to pay for long term care. One is called a "Long Term Care Rider", and the other is called a Chronic Care Rider. Although they sound alike and both do the same thing they are quite different. There is an additional charge for the Long Term Care Rider, but once it's accessed for benefits there are no further costs. However the Chronic Care rider has no upfront costs but once the benefits are accessed there is an interest charge for the length of time the money is borrowed from the death benefit. Point is to make certain that a client is actually comparing on an apples to apples basis when making a contract cost comparison. The single biggest drawback to either of these 2 types of contracts is that it may be more restrictive to access the benefits and the benefits may not be as generous as it's extremely costly to add on an inflation option, but one could start off with a larger benefit.

Current Trends

While it not possible to predict whether the ultimate outcome of the traditional stand- alone long term care contract will continue to grow, disappear, or be shared with the combo/linked plan, several things are certain. It's becoming increasingly more difficult to find as wide a choice of long term care Insurance contracts and carriers today as were available just 5 years ago. The remaining

contracts have become more expensive and increasingly more difficult to qualify for. The benefits are becoming more limited as just last week one of the major companies offering the traditional stand -alone long term care insurance contracts discontinued offering the compound inflation option making the benefits of that company significantly less attractive than had been available.

All in all the Insurers are stepping away from Insuring 100% of the risk and are making the Insured share in more and more of the overall risk of utilization. Some are referring to long term care Insurance written over the last decade as the Black Hole (5) of the Insurance Industry. Many executives are now admitting that they misjudged everything from pricing to retention to utilization to life span. However one thing is certain these policies are costing Insurers Billions of dollars of profitability. To make matters worse the lifeline of Insurance company earnings current bond yields have declined sharply further exasperating the situation.

Howard Bedlin, vice president for public policy and advocacy at the National Council on Aging calls what's happened to the long term care industry over the last five or six years "Market Failure" due to the significant premium increases over the years. One bright light for the Industry is that long term elder care will devour about 3% of the of the US economy, up from 1.3% in 2010, according to the Congressional Budget Office projections.

In Conclusion

Long Term Care Ins has been fraught with controversy since initially introduced by 2 major Insurers over 37 years ago. The product has gone through significant price increases, incorrect utilization assumptions, benefit restrictions, Individual removal of various policies from the marketplace as well as a major overhaul from a stand- alone product to a rider that can be added on to a life Insurance contract, or even combined with an annuity. One thing is for certain and that's that the product will continue to change over the next few years.

5 Bloomberg News March 3, 2015 The Old Age Bill that's Crushing Genworth

As this chapter goes to press one such insurer just took a major step to fix the pricing problem on a long term basis. This company just requested, fought for and received a 60% pricing increase in an attempt to maintain and continue to offer a long term care product to the upcoming generations. With a 60% increase in premium or a successive drop in risk exposure as many of those affected Insured's will no doubt opt to reduce their benefits in order to reduce their new premiums. In doing so the Insurer is making a long term commitment at what they now hope to be the right price for the risks involved in offering a high utilization coverage to an aging population that wishes to maintain their independence for as long as possible. One that doesn't want their kids taking care of them when they get older, as they may have had to do with their aging parents.

This product line may now prosper as baby boomers and their successive generations realize the significance of *caring about* their loved ones rather than *caring for* them.