



CENTER FOR INSURANCE
POLICY AND RESEARCH

2019 Fall National Meeting

CIPR Program: Highlights and Update

The State of Long-Term Care Insurance

Friday, December 6, 2019
3:30 – 5:30 p.m. CT

JW Marriott Austin
Austin, TX

NAIC
NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS



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From left to right:

Eric A. Cioppa, NAIC Past President and Maine Insurance Superintendent

Scott A. White, Virginia Insurance Commissioner

Jan Graeber, Senior Health Actuary, American Council of Life Insurers (ACLI)

Bonnie Burns, Training and Policy Specialist, California Health Advocates (CHA)



Overview

The private long-term care insurance (LTCI) market has evolved since its introduction in the 1960s. After experiencing rapid growth in the mid- to late 1980s and 1990s, the industry has undergone significant contraction, both in sales and number of insurers in the market.

LTC expenses represent a huge uninsured financial risk facing the U.S. elderly population. Because most long-term care services are not covered by Medicare, LTC expenditures are typically paid out of pocket or by public insurance with Medicaid.

LTCI is a top priority for the state insurance regulators and the NAIC. In light of the challenges facing the LTCI market, NAIC's Center for Insurance Policy and Research organized an event, held in December 2019, to discuss regulatory, consumer and industry perspectives. The first panel was a discussion about the current state of the LTCI market. The second panel contained an overview of new innovations in LTCI. During the third panel, insurance commissioners discussed LTCI regulatory initiatives. Here, we present key takeaways from the event, followed by an in-depth overview.

LTCI is a top priority for the state insurance regulators and the NAIC



Part 1: The Current State of the Long-Term Care Insurance Market

Scott A. White, Virginia Insurance Commissioner

Jan Graeber, Senior Health Actuary, American Council of Life Insurers (ACLI)

Bonnie Burns, Training and Policy Specialist, California Health Advocates (CHA)

Moderator: Eric A. Cioppa, NAIC President and Maine Insurance Superintendent

Panelists discussed the evolution of the long-term care insurance (LTCI) market and initiatives by state insurance regulators and the NAIC to foster new product innovation and ensure consumers are receiving the benefits of their policies.

The LTCI industry faces numerous challenges, including:

- Consumers do not generally understand who pays for LTC and how much it can cost.
- **Affordability:** While middle-income consumers were among the primary customers of LTCI policies in the 1980s and 1990s, the average annual LTCI premium for a 55-year-old is currently \$2,050 for men and \$2,700 for women, which is no longer widely affordable.
- Insurance companies have not adopted improvements in technology that could help aging people age at home, out of care settings.
- The industry has not acknowledged that caregivers, who may know little about long-term care, file claims on behalf of the insured. Since these caregivers depend on insurance companies to help select appropriate services, people sometimes end up in institutional settings even if they could remain at home—perhaps for less money—with proper care.



Number of insurers offering traditional LTCI coverage: More than 100 to about 12 today

Four major mispricing assumptions contributed to the current challenges with LTCI:

- 1) Lapse rates
- 2) Morbidity assumptions
- 3) Mortality assumptions
- 4) Declining interest rates on investment performance

The NAIC faces several major challenges related to LTCI:

- Regulating hybrid products that combine life insurance or annuities with LTCI.
- Monitoring closed blocks to make sure carriers have adequate reserves to pay claims for remaining policies.
- Ensuring that the LTCI industry can maintain proper reserves.

AG 51

In 2017, the NAIC adopted Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves, known as “AG 51,” to clarify requirements for the calculation of LTCI reserves. The review group’s actuaries have been gathering data about issues such as persistency and morbidity, allowing for more scrutiny of assumptions and reserves that should translate into more accurate actuarial modeling for LTCI.

Pricing

Pricing is a major factor contributing to uncertainty in the market, Ms. Graeber said. Insurers need a predictable regulatory framework that allows insurers to price and manage their business. Making incremental adjustments annually could deflate the magnitude of premium increases being proposed. Commissioner White agreed, adding that future conversations may move away from a level premium approach to an annual rereating. He emphasized the need for a more uniform approach among the states to avoid confusion and create a more streamlined process to review LTCI products.

LTCI must evolve

Panelists said LTCI needs to evolve with the way LTC services have evolved. The American Council of Life Insurers and FILA have been working together to talk about solutions that the NAIC’s Long-Term Care Innovation (B) Subgroup discussed in 2017. Some options include:

- Enabling policyholders to access insurance benefits pre-trigger, which would allow care coordination or care management in people’s homes rather than in nursing homes.
- Including preventive services in a policy, which could delay or prevent nursing home care, for example transportation to physician appointments, since driving capability is one of the first things elderly people lose as they age.
- Leveraging technology, such as facial recognition software and prescription drug dispensation that allows for safer prescription drug access by ensuring the patient is receiving the correct drug and dosage, preventing an accidental drug interaction and a potential health care visit.
- Embracing hybrid life or annuity policies that remove some of the existing moral hazard associated with current LTCI policies, which policyholders must use or lose all of their benefit.

Sales of stand-alone individual long-term care insurance policies have fallen from 372,000 in 2004 to about 60,000 in 2018. However, hybrid policies are becoming more common; these can combine life insurance or annuities with LTCI benefits.



Part 2: New Innovations in LTCI

Jessica K. Altman, Pennsylvania Insurance Commissioner

Stephen C. Taylor, Then-District of Columbia Insurance Commissioner

R. Dale Hall, Managing Director of Research, Society of Actuaries (SOA)

Steve Schoonveld, Head of Linked Benefit Product Solutions,
Lincoln Financial Group

The second panel opened with panelists describing innovation in the context of LTCI. Then-Commissioner Taylor noted that one goal of innovative solutions is to communicate the need for LTCI to consumers while they still are young and healthy.

Innovation in LTCI takes two main forms:

- Distribution channels for reaching clients, including brokers or financial advisors.
- Advances in underwriting, such as simple, non-invasive electronic or app-based formats.

Engage employers

Panelists argued that, as a type of retirement program, LTCI is a logical addition to the insurance products many employers already offer to their employees. LTCI is especially important since the cost of LTC can threaten retirement security. Some have proposed finding ways to incorporate LTCI into traditional retirement plans, such as 401(k) or 403(b) plans, or Health Savings Accounts (HSAs).

NAIC Consumer Representative Brenda J. Cude (University of Georgia) challenged the NAIC to broaden its discussion about LTC, perhaps by encouraging employers who currently help young adults pay their student loan payments to also help employees fund LTCI.

LTCL policies can include coverage of:

- Assisted living
 - Hospice care
 - Home health care
 - Skilled nursing care
-

Spur LTCL innovation with legal and regulatory changes

- Make policies portable, so people can retain them if they change employers, and educate consumers about existing plans that are already portable.
- Allow consumers to offset taxes by using pension funds to pay LTCL premiums.
- Delay claims by allowing companies to provide caregiver training and other help to assist with activities of daily living, so policyholders can remain independent at home longer.
- Modify and/or apply inflation protection uniformly across states.
- Require financial advisors and brokers to complete continuing education (CE) requirements about LTCL.

Current regulatory processes slow innovation

Mr. Hall encouraged products to be available from insurers in more efficient ways across the country, since some states do not participate in the Interstate Insurance Product Regulation Commission (Compact) process and new products can take two to three years to complete the regulatory process.

Reach the middle of the market with hybrid products

Streamlined, hybrid LTCL products may be a viable way to reach middle-class and young people, panelists said. Hybrid products combine life and LTCL policies; if policyholders do not use LTC, their heirs receive a death benefit. However, since hybrid products combine life and LTCL, they require two regulatory filings, a disincentive for insurance companies.

Ultimately, Commissioner Altman said, the LTCL industry must create a value proposition that encourages Americans to invest in their security. "That's something we should all continue to take to heart," she said, "and not think about long-term care in a bubble either with all the other things out there related to retirement security."

The LTCL industry must create a value proposition that encourages Americans to invest in their security.



Part 3: Long-Term Care Insurance Regulatory Initiatives

Scott A. White, Virginia Insurance Commissioner

Michael Conway, Colorado Insurance Commissioner

Jessica K. Altman, Pennsylvania Insurance Commissioner

Fred Andersen, Chief Life Actuary, Minnesota Department of Commerce

The third panel took a closer look at regulatory initiatives aimed at improving LTCI, a top priority of the NAIC. Panelists described how the task force's three subgroups will attempt to create a shared path forward to solve this national problem.

NAIC's LTCI Task Force:

- Builds on the work of NAIC's Health Insurance and Managed Care (B) and Financial Condition (E) committees to design a LTCI strategy.
- Brings together insurance commissioners to make decisions at each state level with top health actuaries from across the country.
- Aims to prevent federal preemption by adopting a consistent national approach.

LTCI Task Force 2021 Charges:

- Develop a consistent national approach for reviewing long-term care insurance (LTCI) rates that results in actuarially appropriate increases being granted by the states in a timely manner and eliminates cross-state rate subsidization.
- Further evaluate and recommend option for consumers who have been affected by modifications to LTCI contract benefits, e.g., where policies are no longer affordable due to rate increases.
- Deliver a proposal to the Executive (EX) Committee by the 2021 Summer National Meeting.

LTCI Task Force subgroups

The Task Force was originally organized into six workstreams. This has since been refined into three subgroups:

Long-Term Care Insurance Financial Solvency (EX)

Chaired by Fred Andersen (MN), this subgroup monitors the work of other NAIC solvency working groups, including the Financial Analysis (E) Working Group and the Valuation Analysis (E) Working Group to assist with any coordination of financial solvency analysis of insurers and to monitor long-term care insurance industry trends that impact the multistate actuarial (MSA) review team’s pilot project and the development of the MSA rate review framework.

2021 Charges:

- Explore restructuring options and techniques to address potential inequities between policyholders in different states and identify techniques to mitigate policyholders’ risk to state guaranty fund benefit limits, including states’ pre-rehabilitation planning options.
- Monitor work performed by other NAIC solvency working groups and assist in the timely multi-state coordination and communication regarding the financial condition of long-term care (LTC) insurers.



Long-Term Care Insurance Multistate Rate Review (EX)

Commissioner Michael Conway (CO) chairs this subgroup, which is working to develop a timely, consistent state-based approach to reviewing LTCI rate increase filings. A lack of uniformity in the way states have raised rates has created a perception that some states are not shouldering their share of the burden, Commissioner Conway said. Therefore, the group will seek to reduce or eliminate existing cross-state rate subsidization and improve rate level parity across states.

2021 Charge:

- Develop a consistent national approach for reviewing LTCI rates that results in actuarially appropriate increases being granted by the states in a timely manner and eliminates cross-state rate subsidization.

As of summer 2021, the first draft of the actuarial section of the rate review framework was released for exposure, with comments due July 26, 2021. With regard to the operations of the MSA rate review Framework, comments were received in May 2021 and are currently being reviewed.

Three Subgroups of NAIC's Long-Term Care Insurance (EX) Task Force, launched in 2019 to focus on LTCI market stability:

- Long-Term Care Insurance Financial Solvency (EX) Subgroup
 - Long-Term Care Insurance Multistate Rate Review (EX) Subgroup
 - Long-Term Care Insurance Reduced Benefit Options (EX) Subgroup
-

Other NAIC groups working on LTCI issues:

Long-Term Care Actuarial (B) Working Group provides actuarial assistance with respect to model rules for appropriate LTCI rates, rating practices and rate changes.

Senior Issues (B) Task Force is developing consumer guides and training material on LTCI, including the study and evaluation of evolving LTCI product design, rating, suitability and other related factors.



Long-Term Care Insurance Reduced Benefit Options (EX)

Commissioner Jessica K. Altman (PA) chairs this subgroup, which is evaluating and recommending options to help consumers navigate rate increases and help the multistate rate review group evaluate RBOs. Most importantly, Commissioner Altman said, the group will help consumers navigate these complex choices, which have significant impacts on financial planning.

2021 Charges:

- Further evaluate and/or recommend options to help consumers manage the impact of rate increases. This includes:
 - » Potential development of a process to evaluate innovative options that allow for insurers to offer benefits that lessen the likelihood of an insured needing long-term care services, including evaluation of the suitability of and regulatory barriers to proposed options.
 - » Potential development of mechanisms to help regulators and consumers objectively compare reduced benefit options (RBOs), including comparison of accepting a rate increase and retaining current benefits to electing an offered RBOs.
 - » Further exploration of pursuing more uniformity in Consumer Notices for RBOs.
- Support and provide expertise to the Long-Term Care Insurance Multistate Rate Review (EX) Subgroup regarding the evaluation of RBOs.

Lessons from Pennsylvania liquidations

In 2017, LTC insurer Penn Treaty went into liquidation. Commissioner Altman learned two main lessons from overseeing the liquidation and guaranty association coverage.

- 1) Regulators must have an accurate picture of a company's financial status and act quickly when problems arise. "We've learned in this market that it doesn't get better," she said. "It only gets worse. We have to intervene as early as we can to make sure the situations like Penn Treaty don't happen again."
- 2) The guaranty fund system works, if imperfectly. Commissioner Altman said that some Penn Treaty policyholders have hit their guaranty fund caps. Keeping this in mind should inform future situations where companies in financial distress face liquidation. The guaranty fund provides an important safety net, but there are downsides. Commissioner Conway argued that the guaranty fund shows how the state-based system can help tackle a huge problem.





Task Force update

Given the urgency of its challenges, the Long-Term Care Insurance (EX) Task Force was asked to complete its work within two years.

Multi-state actuarial review

As of summer 2021, the pilot project for the multi-state review is nearly complete. The multistate actuarial (MSA) review team includes state insurance department actuaries from Connecticut, Minnesota, Nebraska, Texas, and Utah, overseen by the LTCI Multistate Rate Review (EX) Subgroup. The MSA review team performs a single actuarial review of a rate increase request that can be relied upon by the state insurance departments in their respective rate review analyses. The team is working with the support of the Interstate Insurance Product Regulation Commission (Compact). For the requests received by the pilot, the Compact is being used for efficiency to allow the company to make one initial request that can be viewed by the MSA review team members and staff from impacted states.

The pilot project work intends to ascertain the appropriate design and needs for a workable state-based review process that supports the goal of the Task Force. In 2021, the MSA review team was reviewing rate requests from several insurers to create a detailed Rate Advisory Report that will contain an analysis and recommendation for state insurance departments. However, each state maintains its authority for approving, partially approving or disapproving the final rate increase.

Task force discussions going public

The Task Force has begun moving discussions about the rate review methodology, reduced benefit options, and consumer notices into the public realm.

The Reduced Benefit Options subgroup has been examining options that companies propose when rate increases are necessary. The subgroup has also been focused on sharing information across the states on practices

Challenges to LTCI market stability:

- Longer lifespans
 - Increasing care costs
 - Underpriced legacy policies
-

currently in use and opportunities to be more strategically aligned. The subgroup developed the [Reduced Benefit Options \(RBO\) Principles document](#) to provide guidance to state insurance regulators when evaluating RBO offerings by insurers. The Subgroup also adopted Guiding Principles on LTCI Reduced Benefit Options Presented in Policyholder Notification Materials to ensure quality of consumer notices of rate increases and RBOs. Both principles documents are included within the draft MSA Framework that is currently released for public comment.

The Task Force has released draft documents regarding the operations of the planned MSA rate review process and the actuarial methodologies to be used by the multi-state actuarial teams. With regard to the operations of the MSA review process, the Task Force is currently evaluating public comments made on the Framework document and is expected to release a second version during the upcoming summer national meeting in Columbus, Ohio. Through a separate track, the Task Force has requested comments on its actuarial methodologies, which are expected to be received by the summer national meeting. The Task Force, working through its LTCI Multi-State Rate Review (EX) Subgroup, is planning to hold a series of public meetings during the fall months leading up to the full adoption of the MSA Framework by the fall national meeting in San Diego, California later this year.

