LONG TERM CARE TRENDS: WHAT CAN WE EXPECT

by John B. Linvill, Jr., CSA ~ Updated April 2008

There are 126 insurance companies writing long term care policies. Many industry experts predict that within 5 years the number of companies actively writing policies will be reduced by as much as 50%. Many companies will sell their long term care books of business because they cannot adequately keep sufficient reserves and surplus (capital) to maintain the growth. As claims develop, companies will find that their actuary models are under pressure.

The industry is roughly 23 years old. The first policies were nursing home only policies. Over time, companies have added home care, community care (adult day care), and assisted living care.

The leading companies are structuring their policies so that 100% of the benefits are available for home, community, assisted living and nursing home care. These companies recognize the need for adequate coverage for all four levels of care. The insured most likely will take benefits at home for a period of time. Home care can be quite expensive depending on the plan of care. A home care plan of care may require registered nurses for shots and physical therapists. The home care hours can be quite extensive. As home care becomes more and more common, home care professionals may require a greater number of minimum daily hours.

The three leading long term care insurance companies have found that their policies are staying on the books longer than expected. **The persistency rate is running at 98.5%**. This means that the policyholders are paying the premiums each year until death or disability. The policies are guaranteed renewable as long as the premiums are paid. Unlike life insurance where the persistency rate is 60-70%, the typical long term care policyholder is very serious about maintaining his/her protection. Maintaining the policy is about providing **independence, security** and **dignity**. The very strong persistency rates mean that the companies will have higher eventual claims. Thus the industry will be continuing to focus on pricing adequacy.

Pricing increases appear in several forms.

- First, there will be more pressure on increasing the pricing on new policies. Companies will cycle their policies (come out with new policies more often). State insurance departments are telling the companies to price their new products on the basis that there will not be price increases in the future. The insurance departments want the companies to get the pricing right from the beginning.

- Second, the companies will create more difficult underwriting standards, thereby pushing certain applicants down to the standard category, resulting in higher premium dollars.

- Finally, I believe that at some point all companies will raise the pricing on existing tax qualified policies. The low interest rate environment is hurting investment income.

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Long term care planning is about winning the inflation game. The 5% compounded inflation riders are creating significant exposures for the companies. For instance, a 40 year old can purchase a policy of $200 Daily ($6,000 monthly) benefit with a 5% compounded no cap increase in benefits. At age 85 (45 years out) the daily benefit would be $1,800 or $54,000 monthly or $648,000 annually. These huge potential exposures will be addressed through price increases on new and old policies. Also, some companies will look to put caps on the total lifetime policy payouts.

For the above reasons, it makes sense to do one's homework now. Make a decision and obtain the coverage before the market becomes "less friendly".

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Inflation calculations are based upon current economic statistics and estimates for the Philadelphia area.