Understanding the LTCI Debacle in 3 Easy Steps

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If the long-standing demographics issued by the Long Term Care Insurance (LTCI) industry are good approximates for reality, there are somewhere between 7 and maybe 9 million PH's (Policy Holders) of what is now called the Legacy or Traditional Long Term Care subscribers (also referred to as LTC 1.0) that were issued in earnest to working class families since the late 1970's. Along these lines, the NAIC (National Association of Insurance Commissioners) estimates the gross liabilities currently carried by the LTC insurance companies:

> The maximum potential benefit value in policies is a little less than $2 trillion. What could be paid out if everyone used 100% of their benefits and the likely payout of these policies is about $800 billion. Given current annual total LTC expenditures of roughly $225 billion, this represents a significant amount of financing over the life of the people with policies. (See NAIC 2016 document)

After no less than 20 solid years in the market, the Legacy 1.0 LTC approach to insurance plans offered to the public were abruptly withdrawn (i.e., frozen in place for existing PH's with no new plans offered) in the approximate 2001 - 2003 time-frame. Insurance companies offering LTC suddenly abandoned offering and selling that coverage. Reasons for this quick shut down of LTC 1.0 by the insurance carriers offering it at the time (approximately 125) are covered later here.

But what is LTC and what is the debacle?

Both of these are good basic questions that are covered below, before the entire episode is summarized in 3 Easy Steps.

The first question is **"What is LTC?"**

> LTC (Long Term Care) Insurance is a complex time delayed insurance product offered by some of the most familiar and largest insurance companies including GE (now Genworth), TransAmerica, John Hancock, Mass Mutual, Northwestern Mutual, New York Life, Mutual of Omaha, that promises to provide a fixed ongoing (until end of life) benefit to aging subscribers *who under insurer's approved claim for benefits* will require any variety of medical and health care assistance in forms of home hospice, nursing home, independent or assisted living or other custodial care due to the wide variety of problems ensued during one's geriatric years including simply bathing, dressing, and eating. These types of services are typically not covered under Medicare (see https://longtermcare.acl.gov/medicare-medicaid-more/medicare.html).
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> Definition of qualifications for claims fall under a structured category of "Activities of Daily Living" (ADL) and "Instrumental Activities of Daily Living" (IADL) requirements any of us may eventually succumb to. Simple examples of ADLs defined are the task of feeding oneself and dressing oneself. See the 2019 California exemplary list of 6 ADL's defined by insurance.ca.gov where benefits trigger when 2 of the 6 ADLs (bathing, dressing, transferring, eating, toileting, and continence) are impaired. Note that Impairment of Cognitive Ability also triggers LTC benefits by California law.

To rephrase the above, LTC insurance allows someone in say their 50's or 60's (or even much earlier) to purchase insurance they begin paying on every month/year that guarantees them a return benefit at some unknown date in the future when they may require commonplace custodial or advanced medical assistance for health care in forms that are normally not covered under health insurance or Medicare. These costs can and should be measured in both fixed costs (per hr. or per day) as well as time/hours spend for unpaid care by custodial volunteers often family members an aged parent, sibling or other relation.

LTC Was Designed for the Middle Class

An important distinction to make here is that LTC is not an insurance product created and marketed with intent to neither the very wealthy (upper class who have asset/cash resources to pay for whatever services are needed) or very poor (poverty class who are candidates for Medicaid or other health care subsidies). *Rather, and contrary to a common misunderstanding of LTC, this product was created by the insurance companies with the middle class income consumers as the clear target for initial purchase and retained subscription.*

The second question is **"What is the LTC Debacle?"**

To put it simply, the LTC Debacle (aka LTCI Debacle) is the situation that has been brewing and swept under many rugs, carpets, regulations since 2001, 2002, and 2003 and sustained gross miscalculations made by the 125+ insurance companies participating in LTC 1.0 that failed to correctly estimate their costs of the promised benefits under the various LTC Book Form Policies written for what became the 7 million+ population of middle class consumers trying to protect themselves against future health care costs they may not have the resources to afford later.

A measurement of the fiscal health of an LTC Book held by any given insurance company is referred to as the Lifetime Loss Ratio (LLR). This is simply a calculation that divides the total cost of benefits to the policyholders of that book by the total amount of premiums (payments) received (i.e., revenue) from those policyholders. The NAIC Regulatory Model for the insurance companies has been 60% which means for every $1.00 received in premiums (revenue) the insurance company expects and hopes to pay no more than $.60 in claim benefits on that policy. That translates to a 40% margin for the insurance company.

There are public records today indicating that the LTC LLR for some of the leading names in insurance today is well over 1.0. This means those policies are costing the payer of benefits (LTC Insurer) more than they recovered in premiums over the life of the book to date. If you were in the same difficult position as these insurance companies are, you might then be tempted to simply raise the premium rates to your policyholder customers. That's exactly what the LTC Insurance companies have been doing, with alarming frequency and even more alarming increases in premiums at seemingly random occasions to the customers.

It is then a runaway cascade of rate increases as policyholders continue to live longer (life expectancy has been measured to increase very steadily since measurements are shown from 1960 through the past 50 years), health care costs continue to get higher, and interest rates reflecting the insurance companies' reserves for paying claims (various bonds) remain flat as they have demonstrated since before the Great Recession in 2008.

Insight into this vortex of continued increased LTC premiums, chasing continued runaway poor LTC Insurer business planning and management since the 1990's (little to nothing has been done before a Task Force was created in 2019) is rarely being presented and discussed outside the scope of finger pointing at actuaries, claimed unexpected life expectancy increases (which are actually almost linear in measured graphs since 1960), and claimed unexpected interest rate (i.e., inflation) stagnation (which has actually been steadily and consistently low for 12 to 15 or more years).

As of February 2020, and at any national level, no new information, insight, planning, or revised policy on rate increases, adjusted premiums, full policy buyback or other forms of repayment to PH's who have sustained as much as 4x or even higher premium increases on their policies level has been issued from the NAIC or any carriers. This leaves over 7 million LTC policyholders in a continued unknown state of the vortex with continued increased premium rates. Numerous Class Action Lawsuits in various states have been either settled or are pending filing or active at this time.

LTC Insurance Companies Reactions To Their Original Debacle Beginning 2001

In light of these gross miscalculations and failure to react to clear indications reflected in the market and demographics, a retraction of all that was offered in the early years (late 80's, mid 90's through 2003) by the insurance companies offering LTC began in about 2001. These retractions were represented in several important ways:

- LTC Insurance Sales Agents and Insurance Brokers representing the products were suddenly pitted against two polar extremes:

  1) honestly representing a product that had claimed to be very unlikely to experience any rate/premium increases over the life of the policyholder (buyer);

  2) properly meeting their sales obligations to sell LTC products for the insurance carriers. As a result of these polarized extremes, many agents and brokers abruptly left their positions with the inability to reconcile this conflict.

- LTC 1.0 Insurance companies began to stop selling their LTC 1.0 products. While these companies did, neither then or to the current date, choose to offer to return to the customer their premiums paid in full, in efforts to make good on their grossly miscalculated estimates of revenue to benefit liabilities. They merely stopped new Book Policy Forms to new customers. They effectively closed the product (contained the damages) as they also continued to accept the premiums paid by existing customer base that was growing to 7 million middle class workers. What forecast might anyone have then on what would happen to those remaining customers' premiums over time?

- At the same time as many insurance companies dropped the product as a salable product, some of the bigger companies, notably General Electric (GE) spun out new companies (Genworth) to represent their LTC products instead of keeping the products under their household business name. It is well understood that the idea of LTC had become tainted in the market with the less than favorable behavior of a product that had been sold as something that would "never go up" in price (rates), yet becoming more apparent that it would have to. As agents, brokers and then entire insurance companies abandoned the market, the public grew increasingly aware of the controversial if not unsavory implications.

- In short order following these rapid changes in the LTC industry, it also appears to have become lucrative for some of these same companies (GE included) to become not the primary insurer on LTC Books (policyholder plans as cohorts or in common with each other as far as terms and benefits) but to instead become <u>reinsurers on these exact same LTC Books</u>. As reinsurers they assume the obligation to provide part or all of the claimed benefits in exchange for some percentage of the premium revenues being generated. In GE's case as a prime example, General Electric was both the reinsurer as well as the original parent company to Genworth, the company they created to sell LTC policies.

To put it succinctly the LTC 1.0 rollout from the 80's and 90's captured some 7 million middle class worker commitments to long term insurance premiums. The policyholders then fully expected to be able to make long term care types of claims sometime in the future (20, 30, or even 40+ years in the future depending on start date and using estimated longevity and various chronic illness ages, aka mortality and morbidity). LTC 1.0 then abruptly folded up like a circus tent and left town beginning about 2001 and quickly reduced the market to just a handful of remaining insurance companies by 2003. The policies in place seem to have since been traded like baseball cards under reinsurer contracts that the customer/buyer was never told about. Today some of those financed investments are coming from offshore as well. (*Read about Genworth's $2.7B planned merger acquisition with Chinese conglomerate China Oceanwide Holdings Group Co. Ltd., now in its 13th setback scheduled for another regulatory review in March 2020 and unlikely to be fulfilled.*)

The Debacle Ensued…

As the LTC circus tent folded, things got much worse financially for consumers as well as for the carriers. Obligations assumed by the insurance carriers to their active retained LTC 1.0 customer base slowly became more devastating to their actuarial calculators and bottom lines. There simply was not enough money being received into the Insurance carrier's reserves to begin to cover the estimated benefit costs that over time would need to be paid as the policyholders' ages reached into the expected mid 80's and beyond. Statistically continuing its prior decades' time lines, the nation's population continued to live longer and be chronically ill less frequently.

On top of that, interest rates on invested capital (inflation rates) in the Insurance companies reserves continued to remain historically low, as it did for all banks and consumers whose checking and money markets remained at 0%, based in part on post 2008 Great Recession recovery including Quantitative Easements and other interest rate manipulations controlled by the Federal Reserve.

The debacle becomes clear here: Promised benefits on LTC insurance policies purchased were no longer a profitable prospect for these companies. While they had numerous options to work with at the time (mid 2000's) they chose to simply start raising the premiums on their customers. This has been an increasing up ramp ever since and continues to accelerate today. These are the same premiums that many of the now departed sales agents and brokers had all but promised the buying customer in the 90's would "probably" never go up.

You can view the LTCI premium rate increase history of some of the leading LTC insurance carriers, by state, by Policy Form (Book) as linked from the Consumer's Information Center on the American Association for Long-Term Insurance (AALTCI) website (https://www.aaltci.org/long-term-care-insurance/learning-center/long-term-care-policy-rate-increases.php/#insurers)

- Genworth Long Term Care Insurance (LTCI)
- Mutual of Omaha LTCI
- New York Life LTCI
- Transamerica Life Insurance LTCI
- Banker's Life & Casualty LTCI

The factors influencing the success of the business of selling LTC by insurance companies are tied to these things:

- How long the paying customer can be expected to live (aka mortality);
- How long the paying customer may continue to pay on the policy or decide to opt-out and forgo all paid premiums to date (aka policy lapse);
- What the ratio of expected return on a policy book is for the insurance company (aka Lifetime Loss Ratio, LLR).

As a lesser but often *overemphasized claim to solvency threats by the insurance carriers*, interest rates continue to remain at historical lows, now for well over 10 years implying more than sufficient time to address miscalculations made by actuaries and executive staff running the business. One question one could ask here, is how have the investment banks themselves survived these same historic interest/inflation lows, and recorded in these same 10+ years the all-time record highest profits in the history of banking.

And of course, people are less sick and living longer which everybody knows, but somehow this lesser point also gets waved around like a justifiable banner by carriers claiming “unexpected” demographic changes to their LTC product plans from the 90’s. After these long and continuous years of the economy’s behavior these trends are far from unexpected on any financial timeline.

THE THREE EASY STEPS TO UNDERSTANDING THE LTC DEBACLE (in no mincing of words)

1. During the 1990’s, large and then small insurance carriers climbed on board with a new experimental product they had created called Long Term Care Insurance, or LTCI. With the LTCI products they’d created, insurance sales agents and brokers then began targeting middle class working families with the promises of paid benefits for geriatric medical including cognitive conditions not covered by common health insurance including Medicare. The expected tenure of benefit claims was in the 2 to 3-year range after which the policyholder was expected to die based on actuarial statistics. Millions of LTC customers were then signed up during their 50’s and 60’s years of age to begin paying annual LTC premiums for themselves and their spouses. They were told at the time not to expect their premium rates to change over time and so they could readily estimate how much this insurance coverage might cost against the expected and rising costs of paying nursing home, assisted living, hospital or home care during their final years.

2. As the reality of miscalculated revenues versus benefit costs became clearer to the insurance companies in the early 2000’s, they began abandoning the LTC ship in droves, leaving only roughly a dozen companies remaining in the market and well over 100 companies exiting the market. These exiting company’s LTC policies were then often picked up for the most part by the remaining stalwarts (i.e., deep pockets) who became their reinsurers. Then began premium rate increases in order to help defray the losing battle against the losing Lifetime Loss Ratios exceeding 80% and soon climbing to 100%+ and often (or very soon) much worse.

3. The rapidly escalating inability for LTC insurers to keep up with their net losses, forces them to choose to frequently use opportunities available to them from the state and national regulators (DOI, Dept. of Insurance per state, and National Association of Insurance Commissioners (NAIC)) to submit requests for LTC premium rate increases to be approved. These commonly approved requests (often but not always as some reduced percentage of the carrier's submitted requested rate hike) are fast and furious at various state levels. This runaway condition exists for many LTC policyholders where their annual premium rates have already increased 2x to 4x or higher the original "promised" fixed low premiums with no end in sight. Cumulative premium investments by the consumer on LTC plans they have carried for perhaps 20, 30 or 40+ years often total 6-digits above $100,000 and $200,000. [*Note: Estimated statistics for expected long term care costs realized by those on benefits or otherwise is nationally typically fall in a range between $175k - $350k, depending in part on the type of care chosen*.]

<u>These consumers have no recourse.</u>

Based on all evidence through action to date (State and National Regulators, as well as Insurance Carriers) these Policyholders may either:

- Face continued astronomical premiums with continued increases with the hope of living long enough to claim the benefit (2+ ADL's) without being DENIED the claim at that time in the future.

- Hastily under a 30-day notice, accept or deny a Contingent Benefits Upon Lapse (CBUL) offer from the carrier at the time of any given premium rate hike notice. Other Buydown offers for reduced coverage at lower premiums, or partial buy back of policy investments, may also occur at will by the carrier. Denial of these offers in the allotted 30-day time frame puts the PH back in the pool of the remaining 3 options here.

- End of Life (mortality), which releases the carrier from paying any benefits or other compensation for that policyholder on Traditional LTC 1.0 policies.

- Lapse (quit paying) on their policy which releases the carrier from paying any benefit for that policyholder, who then loses 100% of their prior investment.

While some LTC policyholders do in fact make claims that are granted and paid on their LTC situations, the mathematics of the situation clearly show the industry at only the very beginning of an exponential rise in the premium rates over a short horizon in time to say 2025. If nothing is done about the current status of LTC behavior on the part of the carriers' mismanagement of their customer LTC policies, one to all of these outcomes appear to be most likely:

- Some of the insurance carriers may reach an economic status of **INSOLVENCY** and perhaps then be required to file bankruptcies, all with unknown implications for the existing policyholders.

- Some portion of the existing policyholders will no longer be able to pay their premiums and be forced to walk away from all investment in the insurance to date by **LAPSING THEIR POLICIES**.

- Upon approved rate increases, LTC Policyholders (PH) usually have 30 days to respond to a letter from their insurance carrier informing them of the pending rate increases and often with an offer for the PH to enter into a Contingent Benefit Upon Lapse (CBUL) option or other Benefit Buydown Options (cash payback) that provide a (often meager) path to recover some of their prior investment after which their policy will lapse. Instead of direct payback, **CBUL** agreements usually promise the PH use of their prior investment (premium rates paid to date) towards **CLAIM APPROVED** LTC costs at some time in the future. If the PH does not respond to the offer mailed within 30 days, the offer is retracted, leaving with the PH the two options of either lapsing the policy or continuing the policy with the rate increase and waiting until the next round of rate hike/CBUL offers occur.

- Some portion of the existing policyholders finally reaching the age bracket of likely **MORTALITY** (approx. 80) will die unexpectedly without receiving benefits.

- Some portion of the existing policyholders will appear to meet the 2+ ADL requirement for filing a claim to their benefit and be **DENIED**.

- Some partition of the existing policyholders will meet the 2+ ADL requirement for filing a claim to their benefit and be **APPROVED**.

Estimating these risks vs. benefits for any consumer given their situation is difficult at best, adding even more stress to an already stressful situation. Given the scenarios above and the history of LTC that has now long been askance in its stability (unchecked as far as the author knows with regard to full auditing of both insurer and reinsurer or other collaborative business partner accounting practices and tax filings) as a consumer product introduced in earnest in the 1990's now appears to be perfectly poised to self-destruct taking with it the entire investments of its departed (lapsed policy or end of life before claim) middle class constituency, without paying a single nickel in any benefits to them.

In addition to these discouraging factors, the 2019 Federal Interagency Task Force (FITF), convened in 2017 by the Treasury Department and aligned with "LTC as a matter of national interest" appears to have merely restated the LTC Insurance industry's common defensive refrain of explanation for nationwide LTC premium rate hikes along these lines (from Dec. 2019 CIPR Program: The State of Long-Term Care Insurance):

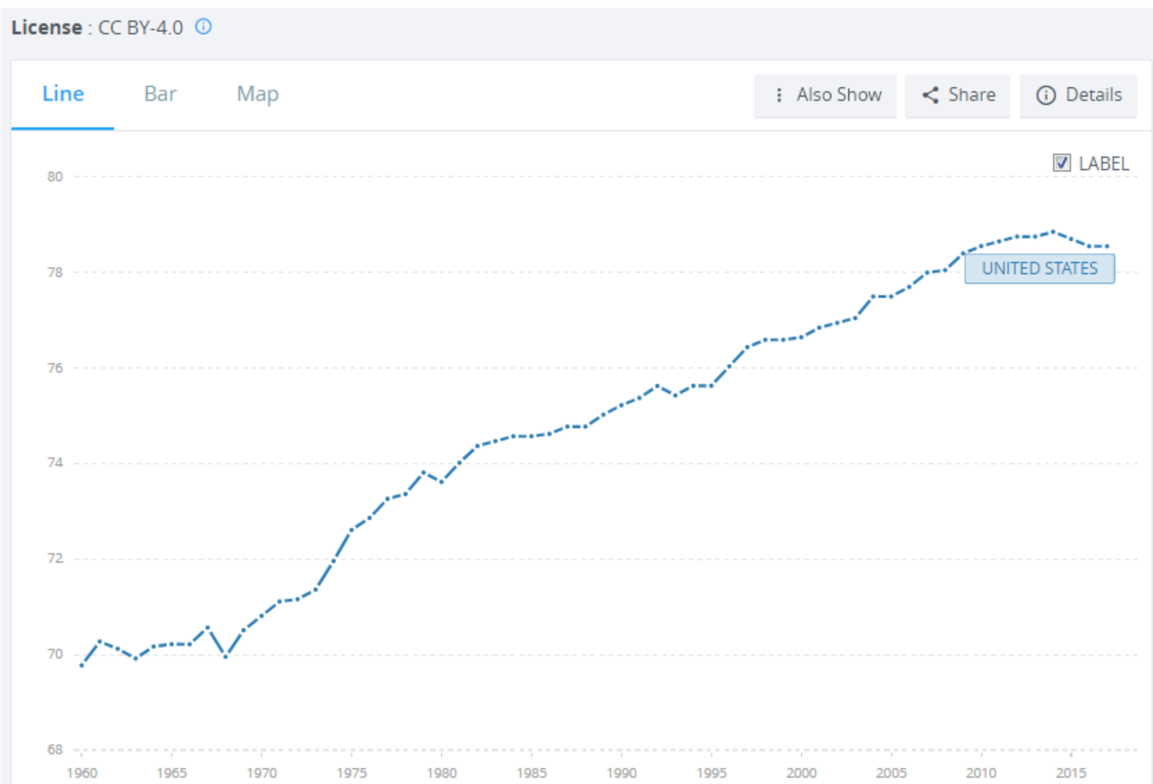
> "*In LTCI markets, insurers and state insurance regulators have been challenged by unknowns. Longevity and persistency actuarial assumptions on early LTCI products have been proven inaccurate."*
>
> One can ask: What happened?
>
> • Insurers underestimated how long people would live. When actuarial longevity estimates were wrong, insurers raised rates.
>
> • Actuaries assumed more people would drop their coverage, but lapse rates have been extremely low.
>
> • Length of claims is increasing, in part because people with cognitive memory disorders, such as Alzheimer's disease, can live a very long time but require extensive care

Given that the peak of the LTCI Legacy 1.0 insurance was 2001-2002, there are many easily referenced points of study and information that are contrary to the 3 above claims of poor estimates made by actuaries and insurers for LTC as defenses of the exaggerated premium rate increases.

These include facts that Alzheimer's became as the 6th leading cause of death in the United States in 2010 with an appreciable presence prior. Alzheimer's had the track record of first being paid attention to by the National Institute on Aging in 1974, then the establishment of National Alzheimer's Disease Month in 1983, then the disclosure of former president Ronald Reagan diagnosed with Alzheimer's in 1994, and finally former President Obama's signature of the National Alzheimer's Project Act in 2011 (see https://www.alzheimers.net/history-of-alzheimers). Alzheimer's is then not a new unknown condition or significant health threat.

The science of Mortality Forecasting was reported in 2008 and documented on Actuaries.org as significant developments since 1980: "Mortality modelling has a very long history. Numerous models have been proposed since Gompertz published his law of mortality in 1825. Mortality forecasting is a more recent endeavour. Only two decades ago, the methods in use were relatively simple and involved a fair degree of subjective judgement; for a review see Pollard (1987). It is only in the last 15 years or so that more sophisticated methods have been developed and applied." (see "MORTALITY MODELLING AND FORECASTING:A REVIEW OF METHODS" from Actuaries.org). In other words, sophisticated national mortality studies, measurements, and projections are not new or unknown in recent decades.

Furthermore, the World Bank Data map of Life Expectancy in the United States from 1960 to 2017 shows a noticeably linear type of progression of increasing mortality ages (1960: 69.771, 1970: 70.807, 1980: 73.61, 1990: 75.215, 2000: 73.637, 2010: 78.541, 2017: 78.539) and only showing a softer leveling (not an increase) of mortality age between 2009 and the latest data 2017. (see World Bank Life Expectancy at birth, total (years) – United States). In other words, life expectancy appears to have been both reasonably predictable and uneventful in its progression for the past 60 years.



CONCLUSIONS

Finally, in the spirit of deduction, one consideration of how LTC's Debacle will further unfold is that the current LTC insurance carriers and their reinsurers and other business investment partners may simply "wait it out" and continue their track record approach to frequently filing rate increases which serves to both increase their bottom line revenue as well as incite more existing policyholders to lapse their policies that they can then no longer afford to pay on. If this approach continues for another say 10 years or less, then it is possible carriers could begin to recover from their self-inflicted financial debacle at the literal expense of the consumer, their customers. This would be due to a largely reduced policyholder base as an outstanding liability and mathematically then requiring the remaining subscribers to pay more as coverage for the costs of any cohort PH's who are currently receiving LTC benefits (and by contract then paying no premiums). This is clearly not in the consumer's interest or to the consumers' advantage, but in fact has been the only approach taken on record to-date as endorsed by the state and national regulatory bodies.