



# **Risk Management in Long-Term Care Insurance**

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# Risk Management in Long-Term Care Insurance

- **Product Design**
- **Claim Utilization**
- **Investment**
- **Reputation**



# Product Design

## Cash Plans

- **Moral Hazard**
- **“ADL Creep” may be more of a sprint**
- **80 year olds start running short on retirement funds**
- **May suddenly “need” help with bathing/toileting/dressing**
- **If people can profit from “needing” help, a lot more people will need help**
- **Marital discounts on cash plans?**



# Product Design

## Restoration of Benefits

- **How do you prove that someone needs care who says they don't?**
- **How do you verify that someone did not receive care during the recovery period?**
- **Need controls to look more closely at recoveries near the end of the benefit period**
- **Much larger problem when automatically included in all policies**



# Product Design

## **Inflation Calculation (original vs. remaining policy limit)**

- **Applying to original policy limit extends benefit period beyond what is stated or expected**
- **Need to price for**
- **Does anyone understand this (producers/customers)?**
- **Is it worth the price?**
- **Customer should keep \$1 in policy limit**
- **Will get significant increase at next anniversary**



# Product Design

## **Nursing Home Only and Home Health Only Policies**

- **Estimated impact of policy on customer behavior**
- **People will seek care that the policy covers**
- **May not be the most appropriate care**



# Claim Utilization

## Incidence and Continuance

- **Much more actual insured data available each year**
  - Need to carefully analyze – full time job

## Lapse Rates

- **#1 reason for inforce rate increases**
- **Companies used to assume ultimate lapse rate of 3% - 6%**
  - Most companies are at least close to being correct now
- **Ultimate rate should be at 1% or less**
  - Should not take long to get there  
( 5 years or so – not 10-15)



# Claim Utilization

## Mortality

- **Should vary by underwriting class**
  - Offsets some of the impact of preferred morbidity
- **Need to differentiate active life vs. disabled life mortality**
  - Very high mortality on disabled lives
    - in claim termination rates
  - Don't double count deaths



# Claim Utilization

## Marital Discounts

- **Experience on married individuals much better than singles**
  - Spouse will provide care when they can and save policy for when needed
  - Even better experience if spouse is healthy
    - Larger discount is both spouses apply and are approved
- **Married now does not mean married in the future**
- **Need to model a wear-off, due to mortality**



# Claim Utilization

## Inforce rate increases

- **Large portion of expected profitability can be lost**
- **New Business Cap**
  - For business sold under **Rate Stabilization Rules**
    - inforce rates cannot be raised above current new business rates
- **58/85 Loss Ratio**



# Investments

## Major risk for LTCi

- **Very long duration product**
  - **No cash values**
  - **Ideal for non-fixed income**
- **Can hedge a significant portion of fixed income returns**
- **May not want to for inforce**
- **Should hedge for new business**
  - **Even on business not yet sold**

## Inflation Linked Plans

- **Inflation is a very large risk**
- **Investment policy that exposes inforce to rate increases due to high inflation would be ridiculous**
- **Can/must hedge a significant portion of the impact of future inflation**



# Reputation

## Claim Practices

- **Recent media scrutiny**
- **Data reporting related to claims**

## Inforce rate increases

- **200% +**
- **Recouping past losses**

