Written Testimony Before the
Subcommittee on Government Operations of the Committee on
Oversight and Government Reform

Hearing Entitled:

Federal Long-Term Care Insurance Program: Examining Premium Increases

Testimony on

Challenges in the Long-Term Care Insurance Market: What can be done?

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November 30, 2016

Thank you, Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee. I am Marc Cohen, Director of the Center for Long-Term Services and Supports at the McCormick Graduate School of Policy and Global Studies at UMass Boston and a former Founder, President and now advisor to LifePlans, Inc., a Boston-based long-term care research, consulting and risk management company.

I appreciate the opportunity to testify on this important topic, in large part because it raises important public policy questions that encompass not only issues related to rate increases, but also those affecting the private insurance industry as a whole as well as the potential public role in addressing long-term care financing needs.

In my testimony today, I will draw upon my more than 25 years of research on the growth and development of the private long-term care insurance market. This research has been supported by the Department of Health and Human Services, the SCAN Foundation, America's Health Insurance Plans, and the Robert Wood Johnson Foundation. I would like to make three broad points today:

1. First, the rate increases that we are discussing today should be viewed within the broader context of the long-term care insurance market, and the challenges faced by all insurers in that market; these rate increases are occurring across almost all blocks of long-term care business as actuaries learn how the product is performing and make appropriate adjustments to their initial pricing assumptions;

2. Second, these current marketplace challenges do not diminish the need for an insurance-based solution for middle class Americans, many of whom will face catastrophic costs and financial impoverishment in the absence of insurance-solutions;

3. Finally, without public action, the private long-term care insurance market alone is unlikely to play a meaningful role in financing the nation's long-term care needs. More specifically, an insurance-based public/private partnership stands the best chance of moving the needle on protecting middle class Americans from significant costs that threaten their retirement.

Let me begin by making a number of key observations to frame some of our subsequent discussion today: First, Americans are ill prepared for the financial consequences of aging and the risk of disability and needing long-term services and supports. Moreover, due to the increasing liabilities associated with long-term care other policy priorities are being crowded out. Second the lack of financial preparation for possible functional impairments in the future can force people to compromise their lifestyles in order to pay for necessary services and supports in a time of need. Third, the private market for long-term care insurance has a role to play in helping American absorb the risks of needing long-term services and supports. However, the data suggest that long-term care insurance has played too small a role. It has clearly under-achieved and experienced significant stress over the last decade and a half.

Currently fewer than 10% of Americans have insurance protection -- about 7 to 8 million people -- and far fewer people today are purchasing policies than 20 years ago. In fact, annual sales are

less than a quarter of what they were in 1995. Most disturbing is the fact that a growing number of insurance companies have left the market. In the year 2000, a study by AHIP found that more than 100 companies were selling LTC insurance to consumers. By 2014, less than 15 companies were selling a meaningful number of policies. Put simply, the market is shrinking rather than growing, and this at a time when more Americans are facing long-term care risks and costs.

There are a number of reasons why so many insurers have stopped offering policies. First, selling costs are typically very high in the individual market, which still accounts for most sales. Given consumers lack of knowledge and understanding about long-term care risks and costs, confusion about what and how public programs pay for long-term care, a general mistrust of insurers, a wariness about making decisions that are costly to reverse, and the difficulty of considering the future implications of today's uncertain and unpleasant choices selling this product is costly and challenging.

Second, insurers have faced a variety of unpredictable risks that affect the pricing of policies including needing to estimate inflation and interest rates, people's behavior regarding their desire to maintain the insurance, and changes in mortality and disability. Many of these risks are hard to spread because they are common to the whole population. Thus, insurers have had to deal with this by de-risking the product – for example, no longer selling policies that cover the catastrophic long-duration or lifetime risk -- and also by charging higher premiums.

Let me provide a concrete example. Interest rates and investment yields. The current structure of almost all policies, including the Federal LTC Insurance Program is a level funded premium. The idea is that premiums collected today are invested so as to create an accumulated fund that will support future claims payments. In essence insurance companies estimate what they think interest rates or bond yields will be for the next 20 to 30 years. Because the U.S. economy has been operating in a close to zero interest rate environment for close to a decade, and it is difficult to find long term high quality high yield corporate bonds, all insurers have been unable to earn the required return on invested premiums to support future claims and their initial pricing. If an insurer assumed a roughly 5% interest rate when it priced a policy for a 55 year old, which was in line with historical returns, and the actual interest rate was closer to say 1%, then if every other actuarial assumption was correct, the premium would need to be increased by more than 50% to support the future pay-out of claims.

Insurers have also been challenged in accurately estimating how services actually will be used in the context of insurance. Across the industry, actual to expected cumulative claims experience is running at 107% and just between 2010 and 2014, the actual to expected incurred ratio has increased from 111% to 124%. This again suggests that claims experience is unfolding in a manner that is worse than anticipated, which again puts pressure on premiums.

The implication of these trends is that there has been a major exodus of companies from the market, as returns on the product have been significantly below expectations. Almost without exception, companies have had to go back to the insurance departments, which reviewed and approved their rates in the first place, and request rate increases. In this regard, the actions of the insurer underwriting the Federal insurance program are consistent with what is occurring in the rest of the market. That said, what we do know, is that when given a choice, consumers would

prefer small but more frequent adjustments to their premiums rather than infrequent and larger changes. A recent survey of new buyers of insurance showed that 71% preferred this latter approach compared to only 2% who preferred less frequent but larger premium adjustments.

It is worth mentioning, that even with these significant industry-wide rate increases, a 60 year old new insurance buyer who becomes disabled 20 years later, will recoup all of their policy premiums in roughly 5 months of paid care, and if they had a rate increase of 50% after 10 years of having a policy, there premiums would still be recouped within 7-8 months of paid care.

The challenge however, is that premium increases have put the product out of the reach of large segments of the public. In, 2015, the average premium of policies selling in the market was roughly $2,700 a year – an increase of 42% over the last decade. These premium increases have made the product too costly for a growing number of middle-income consumers and unless there is a way to improve the functioning of this market, the insurance will increasingly become a niche product for wealthier Americans rather than the middle class who only have personal savings and or safety net programs like Medicaid to rely on should they require significant amounts of care.

Despite private sector challenges insuring this risk, LTSS has all the characteristics of an insurable risk. There is a relatively small probability of a long period of impairment and associated costs, and individuals lack the ability to predict in advance whether they will have such an event. While roughly half the population age 65 and over will never need substantial services, roughly one in five are expected to need substantial care for between two and five years and just over one in ten to need care for more than 5 years – which could cost upwards of $250,000.

The underdevelopment and growing unaffordability of private insurance, and the absence of public insurance presents a fundamental problem: people have no way to plan effectively for what is actually a perfectly insurable risk. Their current options are inefficient, unattractive or both. If people rely on savings, they will likely save too little or too much, since they cannot easily predict whether they will face catastrophic LTSS burdens. If they rely on Medicaid, they must first expend significant personal resources, and only then qualify for coverage that in many places still limits the availability of in-home care. Even when people have budgeted carefully through their working lives, they can still end up impoverished, because they receive little or no help if they need significant amounts of care.

Since current strategies have not worked well in assuring broad consumer appeal and insurer enthusiasm, what can be done? My sense is that without expanded public sector support designed to spur demand and supply, we will not be able to protect the majority of middle class Americans.

A number of concrete actions in this regard include: (1) simplifying and standardizing products with the aim of increasing the effectiveness of consumer choice and reducing selling costs which can be done by having a limit on the number of distinct products along the lines of Medigap; (2) changing the structure of premium payments so that there is some level of indexing which would likely address cost as well as premium stability issues; (3) making it easier for consumers to

purchase the product by having employers and other organized purchasers of insurance play a greater role in organizing opportunities to purchase LTCI. For example, making the insurance available in conjunction with the purchase of health insurance, other employee benefits, or even Medicare Advantage enrollment. This would reduce selling costs, the rigor of under-writing and offer consumers more convenient ways to learn about LTCI.

Even with these actions, without expanded federal and/or state support the needle is still not likely to move enough to protect the majority of middle class Americans. To reduce consumer confusion and increase awareness and knowledge of the long-term care risk, a federal educational campaign that is built on the lessons learned from successful public and private campaigns would help expand demand. These could include warnings that Social Security and Medicare do not cover LTSS.

In addition to an educational campaign we need to think more broadly about shared public and private insurance models. For example, given that the private insurance market is not willing to provide products covering the catastrophic tail risk, one might consider whether and how states or the federal government might do so. A public approach to covering the catastrophic tail risk, could provide a base that the private insurance industry could supplement or "wrap around". It would likely encourage more insurers to get back into the market, broaden the risk pool, enable the private insurance industry to fill gaps in public coverage, and lower the cost of insurance products.

It is interesting to note that there is growing support among researchers, practitioners, and stakeholders for examining this concept in more detail. In a recent survey of Americans age 50 and over that measured preferences for potential public and private insurance partnership roles, about three-in-five preferred a program where a private insurance policy would pay for roughly the first few years of long-term care services, and then public insurance would pay for more catastrophic liabilities. As well, when a group of individuals who had been offered a private long-term care insurance policy and chose not to purchase it were asked about such a program, nearly 40% indicated that if there were such a program, they would be more inclined to purchase a private policy to cover the up-front risk. Thus, what is needed to assure that more Americans come to rely on insurance to finance their long-term care needs, is a series of public and private actions.

The rate increase discussion discussed here is symptomatic of an industry in distress, one that could benefit from a number of the actions outlined above so as to expand the number of people who are insured. I appreciate the opportunity to testify about these important issues and would be happy to answer any questions that the Committee might have.