Insurance Insights

Long Term Care – A Market Assessment

We have been receiving many inquiries about long term care and what is going on in the market. There is some recent news that has shocked some advisors and that is MetLife and Prudential, two of the largest insurers in the world, have exited the long term care insurance marketplace. Will they return, only time will tell? Other news that has "hit the wire", Hartford is exiting the US life insurance and retirement business and Sun Life has exited the US life insurance business.

Long term care insurance even though it has a limited benefit period seems to be a risk the insurance industry is having a problem supporting. It has the potential to be a very big market but penetration is not at a level where some carriers need it to be to stay in the market. Economic conditions are such that insurance carriers are taking a long hard look at their different lines of offerings and need to make decisions about where to spend their resources and, most of all, capital. There are certain capital requirements that need to be committed to in order to fund a line of insurance. The economic conditions have made it difficult to remain in certain segments of the market.

What are these conditions?

- Low interest rates and the prospective continuance of such an environment continue to strain the insurance company's balance sheets and risk acceptance capability
- The economic crisis impacted all insurance company's capital accounts. They all needed to raise more capital just to shore up their balance sheets therefore impacting their ability to grow and take on more risk.
- Ratings are an important factor in staying committed to different lines of risk
- It has become much more difficult to manage risk
- Regulatory environment, its oversight and its related costs have risen significantly
- Competiveness has played a role in making decisions about remaining in certain risk categories
- Many carriers now are public companies and lines of offerings are under a microscope. Does the amount of capital we need to commit produce the required rate of return? Can we price the risk profitably? Should we exit and wait for deeper penetration or economic conditions to improve? What is the impact to our clients and the other lines of business we support if we can reallocate resources?

Long term care and its associated risks are quite large therefore; the capital that needs to be committed to be competitive is significant. In the world of insurance LTC is really still in its infancy.

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Market place assessment:

- Actuaries are having difficulty calculating long term morbidity with enough certainty
- Inflation is running extremely high in this area of care
- Even though insurance companies have the right to raise rates on individual policies the negative back lash from regulators, rating agencies and their policyholders may not be worth the risk, so why not just exit.
- Claims history is indicating that the insurance companies did not price the risk correctly
- Assumptions built into the pricing of the product about lapse rates were too low
- Inflation riders on policies have been difficult to support as the capital required to fund the future liability in a low interest rate environment is very challenging
- Consolidation of insurance companies, public company status, and the lack of distribution penetration has caused a commitment of resources challenging to support

Individual product issues and new product development

Insurance companies who are committed have had to make some changes to current individual policy pricing by way of price increases on their current block of business. They have increased prices for new individual policies. Some have significantly increased the price for level inflation riders, specifically the 5% inflation rider. The market has become quite complex as variations in policy contract provisions become difficult for successful distribution.

In order to combat a possible back lash from having to increase prices for individual policies the insurance companies have designed products where their risk is easier to calculate:

- They have designed life insurance products with an LTC rider where the insured can get paid a certain percentage of their death benefit if they qualify for a claim
- They have designed a life insurance policy that offers a set amount LTC benefit or an inflation adjusted LTC benefit for a single premium commitment. This policy also has a death benefit that is slightly higher than the single premium and decreases if an LTC claim is paid. The policy also offers liquidity of your deposit; therefore you can exit the plan.
- There are some annuity type policies that have an LTC component

The LTC market will continue to evolve and change with economic conditions. If you have any questions please feel free to give us a call.