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Innovation in the LTC Insurance Market

By Bruce Stahl

Say what you will about long-term care insurance (LTCI) pricing, administration and financial management strategies in the early to mid-1990s, yet you must speak well of the many product ideas insurers implemented at that time.

Back then, insurance companies sought to design LTCI products that would satisfy consumer needs and concerns. Nursing home-only policies saw coverage added for adult day care and assisted living facilities, home health care benefits substantially strengthened and benefit period maximums changed to lifetime maximums.

Providers also altered the benefit qualification requirement of a three-day prior hospitalization stay to three distinct qualifications: deficiencies in activities of daily living, cognitive impairments or medical necessity. Some even found ways to profitably underwrite applicants with substandard health. How many know, for example, that Penn Treaty Network America Insurance Co. had a substandard product which may have been one of the most profitable per premium dollar of any LTCI product sold at that time?

Yet private LTC insurers were not satisfied with penetrating only 10 percent of the potential market. At the time, it appeared to me many in the industry had turned to the federal government for legislation that would raise awareness of and render credence to their products. When the Health Insurance Portability and Accountability Act of 1996 (HIPAA) was signed into law, the industry celebrated. Indeed, I recall being at an LTCI industry conference the day HIPAA's passage was announced: Participants gave it a long round of applause.

However, soon thereafter and rather dramatically, LTCI product innovation came very close to a halt. Companies shifted focus to configuring products to satisfy HIPAA needs and the model regulations of the National Association of Insurance Commissioners (NAIC), and they assumed consumers would follow along with what the regulations expected of them. Some consumers did follow for a time, but not for long. Once insurers discovered that the cost of providing consumer-friendly benefits would exceed their pricing projections, they focused their efforts on obtaining premium rate increase approvals for their existing LTCI products and spared little effort on product innovation.

Premiums on new business increased and consumer interest plummeted. Essentially, insurers discovered they could no longer price standard LTC policies at levels the average customer would purchase. The equilibrium that is basic to the economic principle of supply and demand was no longer there.

About five years ago, the NAIC began to look for LTC product innovations to recommend, with the help of organizations such as the Society of Actuaries. The recommendations focused on how to keep premiums down through tax relief as well as changes to federal and state regulations that would not alter the basic benefit design. The suggestions did not materially address the long-term risks insurers face in this market.

In hindsight, LTCI providers might have served themselves, and the market, more effectively by redesigning their products so that they would satisfy evolving consumer needs and desires while pricing at sustainable levels. Today, the market for traditional standalone LTCI is tiny, while the market for combination products continues to grow. Combination coverage appears to have replaced standalone LTC but is not able to expand beyond it, as the target market is an affluent one, comprising, ironically, just 10 percent of the total LTC market.

To penetrate the market of those who today are concerned about future long-term care needs, LTCI providers will need to combine strategies for financial sustainability with the consumer-driven product design focus of the early to mid-1990s. Simply put, we have to again consider what a large component of the LTC market truly wants and needs and focus on designing products that will meet those wants and needs.

In 2016, the American Academy of Actuaries published an issue brief that sought to provide guidance for LTCI product innovations which would serve the LTC coverage needs of the U.S.'s fast-growing elderly population.[1] While the issue brief may have had regulatory and other potential public reforms in mind (groups such as the Urban Institute and the Bipartisan Policy Center had prepared reports around the same time with potential public reform ideas), the guidance can be useful for insurance companies.

Private innovation can resurge despite regulatory hurdles. I know from first-hand experience that entrepreneurial individuals can team together to solve the puzzle of developing products at price points which will meet consumers' LTC financing needs. If the initial results are innovative, non-traditional products that may not necessarily comply with every state or federal regulation, companies may need to file and administer these novel products differently. Insurance companies definitely have the ability to innovate and, as state Medicaid budgets continue to climb, most states right now have the will to make something work.

Insurers should use government requirements to enhance progress rather than hamper it. Innovation in LTC product design may require more discussion with state and federal regulators, yet in the end, the gains from this additional effort may strengthen both LTCI products and its providers' risk management capabilities.

Regulators and consumers are looking for affordable and innovative LTC solutions and are waiting for insurance companies to come up with them. My recommendation to LTC insurers: Resurrect the innovative approach of the early to mid-1990s and address the demand with viable products.

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ENDNOTES

1 American Academy of Actuaries. 2016. Essential Criteria for Long-Term Care Financing Reform Proposals. Issue Brief, November. *https://www.actuary.org/sites/default/files/files/publications/Essential_Criteria_for_Long-Term_Care_Financing_Reform_Proposals_112916.pdf.*