The LTCI Industry:

A Closer Look At Opportunities Versus Risks

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Glickman led the effort to form the Society of Actuaries' long term care section and was its chairperson for the inaugural year in 2000. He also led the effort to develop the Annual Intercompany LTCI Conference, serving as chairperson for the first four years, while remaining actively involved in the fifth through eleventh conferences. In 2005, he was awarded a "Lifetime Achievement Award" for his work in the LTCI industry.

Glickman was a member of the Society of Actuaries board of directors from 2005 to 2008 and served as vice president for that board from 2008 to 2010. He has also been a member of the board of Directors of the Intercompany LTCI Conference Association since 2005. He represented the state of California as an "at-large" delegate to the White House Conference on Aging in 2005 (a conference held every ten years).

Glickman has authored many articles on LTCI including the annual Broker World LTC insurance surveys for 2001 through 2004. He is frequently the featured speaker at national meetings on the topic of LTC insurance and the CLASS Act.

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Life and health insurance companies have been looking for opportunities with products that the baby boomers need to fuel premium and asset growth over the next decade. For those not currently selling LTC insurance, the next two years present the perfect opportunity to enter the business. This opportunity has been brought about courtesy of the CLASS Act, a very small piece of the recently passed Health Care Reform.

Whether you are a fan of the CLASS Act or an opponent, all agree that during 2011 and especially during 2012, the government will be spending a large amount of time, money and effort educating consumers about the tremendous risk and costs associated with long term care and the need to plan for these costs.

Because the CLASS Act will be offered on a guaranteed issue basis, private industry (which only sells to the healthy) will be able to provide better solutions to insurable consumers, at lower costs. In addition, since companies entering the LTC insurance industry now do not have to deal with any of the inforce underpriced legacy products from the 1990s, they will be the recipients of the full profit levels of today's current product offerings.

For health insurance agents—especially those who are likely to be disenfranchised by health care reform—now is the perfect opportunity to start learning about the LTC insurance market and how to participate in an industry that is very likely to experience strong growth over the next decade. It will be an opportunity lost for those agents who find their clients and relatives asking them for advice in the face of the government advertising blitz not to have a knowledgeable answer.

Recently, the LTC insurance industry encountered another bump in the road, as two of the three largest sellers of LTC insurance—John Hancock and MetLife—announced major changes in their LTC insurance structures.

In September 2010, John Hancock announced that they would be increasing inforce business premiums by an average of 40 percent. This followed their May announcement that they would discontinue selling lifetime benefits and dramatically increase their prices for compound benefit increases. In November 2010, MetLife announced they would be exiting the LTC insurance business at the end of this year. This followed their announcement in September 2008 that they would discontinue lifetime benefits and group benefits, while increasing new and inforce business premiums.

These two latest announcements have caused many both in and outside the LTC insurance industry to wonder what is happening to the industry and, even more importantly, what will happen going forward. To understand what is happening, it is necessary to understand the changes that began with rate stabilization in the early 2000s.

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In the year 2000, the National Association of Insurance Commissioners (NAIC), with the support of the LTC insurance industry, passed a model regulation called Rate Stabilization. By 2002, 26 states had adopted this regulation. At this point, each carrier had a decision to make, and a few companies decided to exit the LTC insurance business, while simultaneously increasing inforce premiums (often by 40 percent or more). However, most companies chose to continue in business, developing new rate stabilized products, with premiums about 40 percent higher than the pre-rate stabilized prices.

Interestingly, none of the companies that developed higher priced rate stabilized products chose to increase their inforce premiums at the same time. This was probably because most of the companies felt that it would be difficult enough to sell the new, significantly higher premiums without compounding that difficulty by simultaneously dealing with rate increases on their inforce premiums. In addition, many of these companies hoped that by selling a lot of the new, higher priced and more profitable products they would be able to minimize the level of future rate increases that would be needed for the inforce products.

From 2003 until 2006, each of these companies introduced their new rate stabilized policies while continuing to sell the old pre-rate stabilized products in the interim. The companies that changed their rates early in the process (John Hancock was one of the first) experienced a rather short "fire sale" of the older, inadequately priced products, while those that changed them later (MetLife was one of the last) had a much longer "fire sale."

In August of 2007, Genworth was the first company among those still actively selling new business to announce an inforce rate increase. At that time they raised rates 8 to 12 percent on some of their pre-rate stabilized products. This action, from the industry leader, led several other major carriers—first John Hancock (in May 2008) with a 14 percent inforce rate increase, then MetLife (in September 2008) with an 18 percent inforce rate increase, and finally Prudential (in November 2008) with an increase of 18 percent (28 percent on their cash benefit products). This successively greater set of inforce rate increases (all less than the 40 percent their new business rates were increased) was an attempt to partially bring these old rates up toward the level of the new, rate stabilized premiums.

Generally, those outside the LTC insurance industry and even some from within attribute the latest actions of both John Hancock and MetLife as confirmation of a new round of miscalculations by the actuaries who price these products. Although investment rates are currently about 1 percent lower than most actuaries would have predicted and lapse rates continue to decline, the primary reason for the recent large inforce rate increases is an attempt to implement the inforce rate changes that really should have occurred several years ago, when new business rates were initially increased. This need to correct the pre-rate stabilized policies has just been magnified by the current experience, which is only slightly worse than actuaries anticipated when the rate stabilized rates were developed.

It is now the job of those who know—especially the actuarial community—to adequately and clearly explain why these increases are happening and that current products are still quite adequately priced. Most importantly, they must outline the reasons why the LTC insurance industry is poised for growth in new business (on a profitable basis) as the CLASS Act is rolled out and the baby boomers continue to move through the primary selling ages of 55 to 70 over the next 15 years.