

# Long-Term Care Insurance: Past, Present and Future *Prudential's Strategy and Vision*

Roy Gosselin

Prudential LTC National Sales Director

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# Agenda

- Industry and Prudential Experience in 2011
- Where We See the LTCi Market Going
- How Prudential Plans to Help (All of) Us Get There Successfully

# ILTC Industry 2011-2012

- **Modest Growth** – 3rd Quarter 2011 LIMRA ILTC report shows growth in new sales premium of 5% above 3Q 2010. We expect FY 2011 numbers to be similar. 2011 should be the second growth year for the ILTC Industry after several years of declining year-over-year sales results.
- **Growth in Market Interest** – Increasing numbers of Baby Boomers are dealing directly care of aging parents.

# ILTC Industry 2011-2012

- **Growing Awareness of LTC Insurance** – Steady stream of (positive and negative) media reports increase awareness of LTC insurance as a viable solution. (3 in 4 Campaign, CLASS Act).
- **Further Carrier Consolidation** – A few smaller LTCi carriers withdrawing. Other carriers changing strategy.
- **Continued Premium Adjustments** – For New Business (“Rate Refreshes”, new products) and inforce business.

# ILTC Industry 2011-2012

- **More Conservative “Traditional Model” LTCi Products** – Riskier benefits and features ( Full Cash Options, Unlimited BP) are unavailable or priced higher (5% Compound Inflation) either via “Rate Refresh” or New Product.
- **More Conservative Risk Selection** – More tools (RX reports), greater use of PHI, F2F, APS’s.
- **Producers Will Still Be Main Distribution** – More Producers using remote selling (phone and shared internet presentations). Carriers unwilling or unable to market ILTCi direct to consumers.

# Prudential ILTC Outlook

- **Concerns About** - Profitability, Viability, Low interest Rate Environment, Morbidity Trends over the Long Term
- **Pru's Goal is** - Controlled, Profitable long-term growth
- **Focus On** - Generating **QUALITY** business
- **Constantly Review** - Claims Experience vs. What is being sold ( Features too risky? Premiums adequate?)
- **Adapt** - Make Product & Pricing adjustments if needed to New and Inforce business
- **Improve** - Service Experience for GA, Producer and Customer
- **Offer** - Innovative solutions (i.e. LTC Evolution, GPO)

# What to Expect from Prudential LTC in 2012

- Continue to implement LTC3 Rate Changes/Rate Refresh as states approve
- Continue to implement Rate Increases on in-force LTC1 and LTC by Design policies as states approve
- Continue to roll out LTC Evolution product, new Marketing Approaches and Marketing Materials as states approve
- Improve the service experience for producers and clients
- Increase Group LTC takeovers due to Hancock's and Met's withdrawal from Group LTC Mkt

# LTC3 Rate Refresh & Feature Changes

# LTC3 Rate Refresh

- **Implemented in 37 States as of 1/1/2012**
  - Affects New business only. Does not affect in-force LTC3 policies.
  - Field receives 2 week notice of implementation (Date app is received in H.O.)
  - Largest increase on 5% Compound Inflation (Avg. 40%)
  - 150% HC Option Premium factor increases from 12% to 35%
  - 90 Day EP, 4 Yr., 5 yr., 6 Yr. BP's and **GPO** premiums **Do Not Change**
  - 2 Yr. & 3 Yr. BP premiums slightly **reduced**
- **Addition of the following product features:**
  - 1 yr. BP (available on new business only, but not in FL, MA, MD, NV, NY, OR)
  - 2% & 4% Compound No Max Inflation Options

# Pru LTC3: Consider GPO Inflation Protection

- Increase offers are made every three years – producers will be paid first-year commissions on these increases
- Daily Benefit will increase by 5% compound for the previous three years on each policy anniversary date
- No limit to the number of times client declines the increase
- No evidence of insurability is required
- Increases continue even while on claim
- Can be upgraded to any automatic inflation option on a one-time, guaranteed-issue basis at attained age premiums on a policy anniversary (ages 79 and younger)

# What Type of LTC Inflation Protection Do People Buy ?

- **INDIVIDUAL LTC** – Issue ages are older than for Group LTC; and a producer IS involved in the sale
  - About 50% of applicants buy 5% Compound Inflation; 10% buy 3%-4% Compound; 20% buy GPO
  - Avg. ILTCi Premium was \$2235/Yr. in 2010
- **GROUP LTC** – Issue ages are younger than for ILTC; and a producer is NOT involved in the sale
  - About 10% of applicants buy 5% Compound inflation; 3% buy 3%-4% Compound ; and 50% buy GPO
  - Avg. Group LTCi Premium was \$672/Yr. in 2010

Source: LIMRA Group and ILTCi Supplemental Reports

# Why is GPO/FPO More Popular for Group LTC Sales?

- More Group LTC Buyers buy GPO because they do not understand the long-term value of 5% Compound
- More Group LTC Buyers buy GPO because they do not want to pay double the premium (or more) for 5% Compound at time of sale
- More Group LTC Buyers buy GPO because they are comfortable with the lower premium and with the fact that GPO allows them to buy more coverage in the future if their needs and budgets dictate
- More Group LTC Buyers buy GPO because they see the need to buy *some* LTC protection today; but are unwilling to pre-fund benefit increases for the future

# Why is 5% Compound More Popular for ILTC Sales?

- More Agents sell 5% Compound because they can explain the long-term value
- More Agents sell 5% Compound because they believe it is better for the insured than any other type of inflation Protection. (“Mercedes or nothing” philosophy)
- More Agents sell 5% Compound because they are comfortable selling what they have always sold
- More Agents sell 5% Compound because they do not know enough about GPO to understand the advantage
- More Agents sell 5% Compound because they know it can double the premium (or more) and will increase their compensation

# Lessons for ILTC

- When buyers make the decision on their own they value lower premium more than pre-funding Inflation increases
- Younger Buyers/Worksite Buyers are fine with buying ***something*** today and worrying about tomorrow's increases tomorrow
- Agents may be losing ILTC sales because of 5% Compound "Sticker Shock"
- ILTC Agents should be knowledgeable about ALL the inflation protection options they can offer. How they work; price points, etc.

# Inflation Options

## *Example:* Annual Premium Comparison\*

<b>GPO</b>	<b>\$658</b>
5% Compound	\$2,299
3% Compound	\$1,159
4% Compound	\$1,560
5% Compound 2X Max	\$1,133
5% Simple	\$1,159
<b>Evolution (\$400K)</b>	<b>\$878</b>

\*Illinois (Area 3), **Age 45** 3 Yr BP, 90-Day EP, \$200 DBA, 100% HHC, monthly, **PREFERRED**, 2-Spouse Discount (lifetime pool \$219,000)

# Inflation Options

## *Example: Annual Premium Comparison\**

<b>GPO</b>	<b>\$1,052</b>
5% Compound	\$3,122
3% Compound	\$1,796
4% Compound	\$2,345
5% Compound 2X Max	\$1,906
5% Simple	\$1,932
<b>Evolution (\$400K)</b>	<b>\$1,672</b>

\*Illinois (Area 3), **Age 55**, 3 Yr BP, 90-Day EP, \$200 DBA, 100% HHC, monthly, **STANDARD 1**, 2-Spouse Discount (lifetime pool \$219,000)

# How Do we Get More People to BUY?

- Make LTCi premiums more affordable
- Make LTCi product designs simpler but still provide comprehensive coverage
- Agents and clients need to reassess LTCi alternatives to pre-paying (over-paying?) for 5% Compound Inflation Benefit increases

# Why Sell LTC Evolution ?

# Prudential LTC Evolution<sup>SM</sup> is Simpler

- ***Fewer decision points*** in creating plan design
  - Lifetime Maximum (\$100,000 - \$1,000,000)
  - 90 Calendar Day Elimination Period
  - Built-in Benefit Increase Feature/Option (GIF)
  - Fewer Optional Benefits
- ***80/20 coinsurance reimbursement*** model for most benefits
- ***No daily or monthly dollar limit*** on benefits - policy automatically keeps pace with inflation's effect on the daily or monthly actual costs of care
- ***Lower premiums***
- ***Federally tax-qualified policy***

# 80% of Actual Expenses – No Daily Dollar Limit

- Used for whatever and whenever covered services are needed
- No discussion needed on “Cost of *Nursing Home Care*”
- **CLIENT CHOOSES at Claim Time:**
  - Type and expense of service
  - Frequency (hours per day) of service
- It doesn't matter how much inflation has increased the cost of that service
- This takes the guesswork out of the DBA/MBA decision at time of application

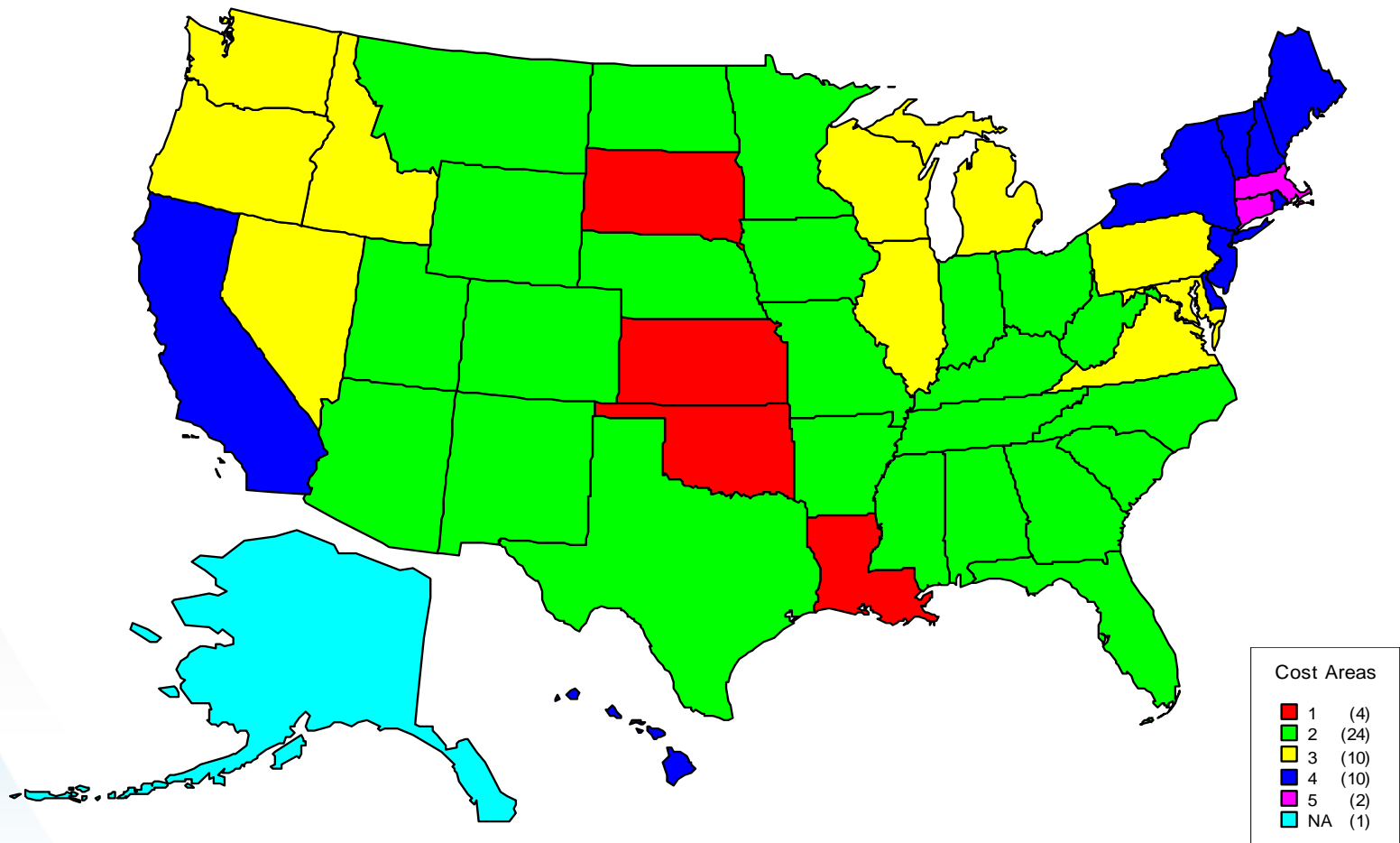
# Prudential LTC Evolution<sup>SM</sup> and LTC Partnerships

- As of 12/2011: available in AL, AR, AZ, CT, CO, DC, DE, GA, IA, ID, IL, IN, KS, LA, ME, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NV, NY, OH, OK, OR, PA, RI, SC, SD, TN, UT, WA, WI, WV, WY
- *Partnership–qualified w/GIF for all ages including under age 60 in AL, AR, AZ, CO, GA, IA, KS, LA, MN, MO, ME, MN, MO, MT, ND, NE, NH, NJ, NV, OH, OK, OR, RI, SC, SD, TN, WI, WY*
- Will roll out subsequently in states as the product and marketing material are approved

# LTC Evolution<sup>SM</sup> Premium Rating

- Lifetime Pay Only
- New Business rates will be re-priced each year on a **“go-forward basis”** to reflect increased cost of benefits/care
- Geographic Rating
  - Multiple area rate tables based on cost of care throughout the US
  - Areas with higher cost of care will have higher rates
  - Majority of states have one area rate table
  - Premium variations exist in four states: CA, NJ, NY, and PA

# LTC Evolution - Cost Areas



**NOTE: Premium variations exist in CA, NJ, NY, and PA.**

# Built-in Guaranteed Increase Feature (GIF)

- Built-in Feature – no additional Premium at time of application
- Every fifth policy anniversary, Policy Lifetime Maximum is increased by **25% (5% simple)** of the Original Life time Maximum up to Insured's **76<sup>th</sup> birthday**
- Each increase is rated based on current calendar year rate
- **No medical underwriting** – Each increase is rated at attained age
- **No limit to the number of times the client can declines the increase**
- **Increases continue even while on claim if under 76**
- **Can be upgraded to any automatic inflation option on a one-time, guaranteed-issue basis at attained age premiums on a policy anniversary (ages 76 and younger)**

# The Pricing Power of GIF, Zone 2

**Age 55, standard rate, partner discount, \$400,000,  
initial premium = \$1,568.35**

Age	Benefit	Average Premium Per \$100,000	Premium Increase
55	\$400,000	\$392.08	\$1,568.35
60	\$500,000	\$394.05	\$1,970.29
65	\$600,000	\$392.20	\$2,353.24
70	\$700,000	\$422.71	\$2,959.01
75	\$800,000	\$479.39	\$3,835.16

# Key Takeaways with GIF

- ✓ **Lower initial premium**
- ✓ **Guaranteed policy increases**
- ✓ **Average cost per \$100,000 of benefit remains low**
- ✓ **Pricing is not like traditional LTC**
- ✓ **Most people would rather “pay as they go” and retain flexibility**

# Prudential LTC Evolution<sup>SM</sup>

- A New and Different Tool for You
- Easy concept & discussion on how to protect assets
- Flexibility to “Pay as you Go”
- Access to more money “up-front”, easy solution for 24 hr Home Care
- Ease of “explaining product” may allow you to get in front of more clients

How will *YOU* use it?

# **Prudential LTC MultiLife Employer Sponsored Program and Affiliation Program**

# Employer Sponsored Program (ESP) Highlights: 2 to 9 Employees

- Handled as an Affiliation/Association
- Full Underwriting – Simplified issue not available to employees or spouses/partners
- 5% Discount
- If applicant qualifies for Preferred Rates, Preferred Rates will be in addition to (NOT in lieu of) 5% Discount
- No minimum participation requirements
- Compensation reduction applies

# Employer Sponsored Program (ESP) Highlights: 10+ Employees

- **Minimum participation requirement for Simplified Issue**
  - 10 to 250 employees (10 employees must be issued)
  - 251 size groups and more (4% of eligible employees must be issued)
  - Spouses/Partners do not count toward participation
- **Discounts**
  - 5% Discount to employees and spouse/partner
  - 5% Discount to family members\*
  - Spouse/Partner Discount may also apply (varies by state)
  - Compensation reduction applies

\* Parents, in-laws, aunts, uncles, siblings, grandparents, grandparents in-law, and children ages 18 and older.

# Prudential LTC Service Improvements

# Service Improvements

- Pru ILTC was supported by 3 different administrative systems – now on one system
- Hired additional staff in Producer Service, New Business, and Underwriting areas
- Beginning 12/22/2011 -daily update feed from our APS Vendor, MediConnect to our system. Result is daily APS status updates on the Prudential Agent Portal
- Producer Service Center expanded to provide more outgoing communication and “soup to nuts” management of cases for Elite GA’s and Agency Distribution Master Agents
- Corporate-wide initiative at Pru to evaluate and improve the “Customer Service experience”

# Prudential's Vision

- Need for LTCi will continue to grow as Boomers approach and enter retirement, and sources of public funding become increasingly constrained
- Raising public awareness of the risk and cost of LTC will continue to be critical to industry success
- Simpler, more affordable products and Inflation Features are needed to increase market penetration (Evolution, GPO)
- The keys to long-term success:
  - Controlled, profitable growth
  - Strong underwriting and risk selection standards
  - Continuous improvement in ability to support our distribution partners



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