Long Term Care Insurance:
Is there hope for private provision?

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Spending the savings: Decumulation and middle-income retirement
University of Auckland, 30 November 2012
Agenda

• What is Long Term Care Insurance?
• Where does LTCI exist (and why)?
• Where does LTCI not exist (and why not)?
• What are the barriers?
• Can LTCI be considered a success?
## Selected countries

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<tr>
<th>Insurance product exists</th>
<th>No insurance product</th>
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<td>France</td>
<td>UK</td>
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<td>USA</td>
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France
France: who pays for care today?

Moderate Dependency
- Monthly Fees: €1,800
- Monthly financial resources: avg pension + avg APA (€1,100 + €300)

Severe Dependency
- Monthly Fees: €3,600
- Monthly financial resources: avg pension + avg APA (€1,100 + €500)

€400 out-of-pocket

Source: DREES and AXA (Brom & Fischer Geneva Assoc 7th Health & Ageing Conference, Nov 2010)
Reasons for LTCI success: (Durand)

- Favourable environment
- Sustained effort by insurers
- Definition
- Cash benefit => choice

- “A simple product for a complex risk”
UK
UK: who pays for care today?

- For those with appx £23,000 and up:
  - Private LTC insurance products
  - Private savings
  - Selling of assets – house, car, land etc
  - Support from family, friends and other organisations

- For those with appx £23,000 and under:
  - Supported by Local Authority

Source: Elliott et al, 2012; Association of British Insurers, Kirwan, UK Health & Care conference May 2009
Why doesn’t LTCI exist in the UK?

Informal survey conducted for
UK Institute and Faculty of Actuaries
Health & Care Convention 2009
involving practitioners from insurance, reinsurance
and consulting
5 Questions on Long Term Care

1. What do you view as the **main reasons** why LTC hasn't taken off in the UK market?
2. What **obstacles** are there in terms of the tax code, regulation, NHS integration etc..
3. **Is there a place for LTC** in the UK market or is there in reality too much overlap with existing UK products in this space – annuities (especially medically underwritten ones), equity release, critical illness/TPD etc...
4. **What else** could providers such as insurers or reinsurers do to **assist** this product? Is there an alternative approach which perhaps the market should consider?
5. Any **additional comments** you may have not covered by the above queries?
Classic British Responses!

- “Is LTC underpriced in France?”

- “I advised my company not to proceed with LTC. I was called a dinosaur by the then CEO, but the board was with me. That decision saved a lot of money.”

- “The typical story is going into a home with three month's life expectancy and 18 months later still having three months' life expectancy...). That blew many of the assumptions that actuaries actually believed to be quite conservative back in the early 90s.”
Q1  What do you view as the main reasons why LTC hasn't taken off in the UK market?

• Pre-funded LTC is very expensive and very hard sell.
  – “People who need it often can’t afford it at their time of life and people who can afford it when they are younger never believe they will need this sort of cover!”

• Lack of incentive for customers to 'save'/pre-fund for their care costs in retirement.
  – “The logic here is simple: if it is difficult to persuade people to take out disability insurance in their working years or to contribute fully to their retirement income needs, then it will be even harder to persuade them to protect themselves from disability in their 70's and 80's.”
Q1 What do you view as the main reasons why LTC hasn't taken off in the UK market?

- There is huge faith in the NHS and a feeling that the State will provide. The reality is very different.
- **Degree of apathy** with the British public around LTC. Many think they'll use proceeds from their house to pay for it if needed.
- FSA Sales Regulation in 2004 drove out a lot of IFAs who felt that low sales volumes didn’t justify effort.
- **Lack of effective integration** with state benefits
- **Lack of tax incentives**
- **Lack of state compulsion** for minimum cover
Q2 What obstacles are there in terms of the tax code, regulation, NHS integration etc..

• FSA Regulation
  – “FSA regulation is a real barrier to entry, both for providers and (especially) for advisers. Passing the necessary exams is really tough for most advisers. Beyond that, the barriers are surmountable, but not really for any one provider on its own.”

• NHS Wealth Trap
  – “The NHS requirement to draw down on any assets before receiving state benefits (even to extent of selling home) makes people feel that their self provision is used to finance their LTC benefits anyway, so why save even more to reduce cost for state.”
Q3   Is there a place for LTC in the UK market or is there in reality too much overlap with existing UK products in this space?

• Pension Provision
  – *Already insufficient* for retirement needs so can’t be expected to provide for LTC needs as well

• Immediate Needs Annuities
  – “I think the immediate needs market is the only way that Britons en masse would be prepared to consider LTC without a tax break and I don’t see a tax break forthcoming.”
Q3 Is there a place for LTC in the UK market or is there in reality too much overlap with existing UK products in this space?

• Home Ownership
  – “While home ownership is high, there's probably limited scope for sales as people feel they can fall back on equity release.”
  – “Before the property crash equity release was seen as a very obvious way that LTC could be funded.”

• State/NHS Provision
  – “Lack of historical and current clarity around Government provision means people may think the State will look after them or that things will change, putting their LTC pre-planning in jeopardy (moving target etc…)”
  – “If the Government pulls away from providing LTC due to the aging population, then LTC products could see a large increase in sales.”
Q4  What else could providers such as insurers or reinsurers do to assist this product?

• Major Industry Marketing Initiative
  – “To get any breakthrough may require at least 6-12 good providers, saturation marketing (so that advisers cannot hide!), a huge PR campaign (which, in turn, will mean working hard with an established care industry, with its existing intellectual and charity infrastructures) and a new generation of product solutions.”
  – “People are generally unaware of the costs of LTC (something like £600 per week for fairly basic care and in London more!) and unaware of the lack of state support. I think this extreme lack of awareness is a major factor. An awareness campaign could be a positive contributor to improving demand, but not in itself enough to generate a market, in my opinion.”
Q5 Any additional comments you may have not covered by the above queries?

- **Target Customers**
  - “key target customers are probably children of currently elderly relatives as they will be most conscious of need and most likely to be able to afford cover, if they start now”

- **Equity Release**
  - “Releasing equity from pensioners homes is the most immediate method with which care costs can be funded through private means. Of about 11.5m pensions, some 9m own their own homes representing a substantial level of equity that can be released to provide for care.”
Q5 Any additional comments you may have not covered by the above queries?

• Advertising Message
  – I first committed time to LTC in 1990. We looked at what advertising messages could be used to sell these (pre-funded) products.
  – The most effective was an old lady praying in Church “please Lord don’t let me be a burden to my children”. At that moment more people understood what LTC was all about than through any number of product specs.
  – But translating that into action given the obstacles involved has proved beyond us as an industry despite some superb specialist advisers in this market.
Supply side barriers (Berry; Lloyd)

- Uncertainty over the extent or composition of future demand for care insurance products, due in part to uncertainty over the future relationship between life expectancy and health life expectancy.
- Uncertainty over future costs of long term care provision.
- Uncertainty over future design of care provision in the UK and the future role of informal carers; it is therefore difficult to design complementary products.
- Limited market profitability due to current market size.
- Costs associated with, and uncertainty as to the trustworthiness of, assessments of individual care needs.
- The reputational risk associated with decisions not to pay meet insurance claims of policy-holders in certain circumstances.
- Regulatory constraints
- Lack of knowledge about long term care and/or care insurance products by independent financial advisors.
- The risk of adverse selection, that is, that demand for care insurance comes largely from individuals with a higher risk of care needs arising – asymmetric information means that insurance companies may not be aware of the higher risk profiles of their customers.
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- **Lack of knowledge** about long term care and/or care insurance products by independent financial advisors.
- The risk of **adverse selection**, that is, that demand for care insurance comes largely from individuals with a higher risk of care needs arising – asymmetric information means that insurance companies may not be aware of the higher risk profiles of their customers.
Demand side barriers (Berry; Lloyd)

- Ignorance of the risk that care needs will arise in the future, exacerbated by a lack of advice on risk and/or products, and a lack of financial capability.
- The unpredictable nature and extent of future care needs, and how much the required care services will cost; people may believe, justifiably, that even if care insurance is purchased, it will not cover the costs of their care in full.
- The complexity and high cost of care insurance products.
- The bequest motive, that is, a desire to preserve assets for future generations; some people may also expect to receive an inheritance from older generations which would cover the cost of care should need arise.
- A belief that long term care is funded entirely by the state through general taxation, or an expectation by individuals will qualify for free care under a means-tested system.
- A belief that family members will provide care informally, and/or a desire to preserve assets to support informal carers rather than surrender them to insurance companies to cover a need that may not arise.
- Distrust of financial services.
- Behavioural barriers such as hyperbolic discounting.
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- Behavioural barriers such as **hyperbolic discounting**.
What does the economist say? (Barr)

- Supply side – insurers – technical problems
  - Risk Pooling
    - Individual Risk, not common shock (systemic risk)
    - Risk, not certainty
  - Information Problems
    - Risk, not uncertainty
    - Adverse Selection (hidden knowledge)
    - Moral Hazard (hidden actions)
- Demand side – individuals – information problems
So how/why do the French do it?

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Agenda

• What is Long Term Care Insurance?
• Where does it exist (and why)?
• Where does it not exist (and why not)?
• What are the barriers?
• Can it be considered a success?
Conclusion

• It is not that the risk is uninsurable
• Complex combination of circumstances and attitudes required to provide “trigger”
• Unlikely to be one insurer alone, or even unilateral effort by the industry
• Would require concerted effort from government and industry
• And a bit of serendipity!
Selected References


