

LTC Adequacy

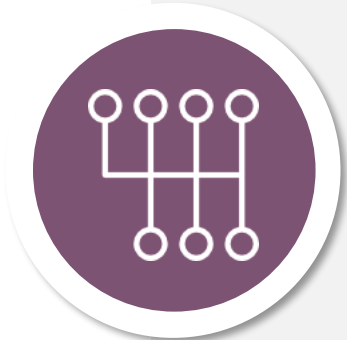
Lynn Manchester FSA MAAA
Principal Consulting Actuary
June 21, 2018

LTCG actuarial team



Leadership

- Matt Morton, Ralph Donato, Lynn Manchester, Brian Ulery
- Recognized experts in the LTC space
- Strong, trusted relationships with regulators
- Frequent speakers at industry events



Dedicated to LTC

- 25 professionals focused exclusively on LTC, many with 10+ years of experience.
- Our team has over 125 years of LTC specific actuarial experience (250 years total)
- Variety of backgrounds bring unique problem solving skills to each engagement

Evolution of LTC insurance industry

1970s

EMERGES

Products emerge
2 – 50 carriers
Nursing Home benefits

1980s

DEVELOPS

Name brands enter
100 carriers
Adds Home Care

1990s

GROWTH

Significant growth
Over 125 carriers
Adds ALF

2000s

CORRECTS

Market contraction
~12 carriers in 2017
Fully integrated care



BENEFIT TRIGGERS GET TIGHTER



UNDERWRITING GETS TIGHTER



BENEFITS SHRINK

Yesterday's assumption, today's reality

THEN

NOW

	THEN	NOW
Low Interest Rates	8%	3-5%
Low Lapse Rates	5%+	~1%
Increasing Longevity	1980 CSO	2012 IAM
Evolving Care Delivery	Nursing Home	Assisted Living Facility
Carriers Selling	100+	10
Distributors	45,000	2,000

- Higher claims costs vs. originally estimated
- Increasing capital pressure under NAIC RBC framework
- Administrative challenges with increasing claims volumes
- Regulatory uncertainty – political not actuarial
- Wary consumers – smart buy to risky buy



Penn Treaty Liquidation

Timeline of financial issues

2001

PTNA risk-based capital falls below company action level

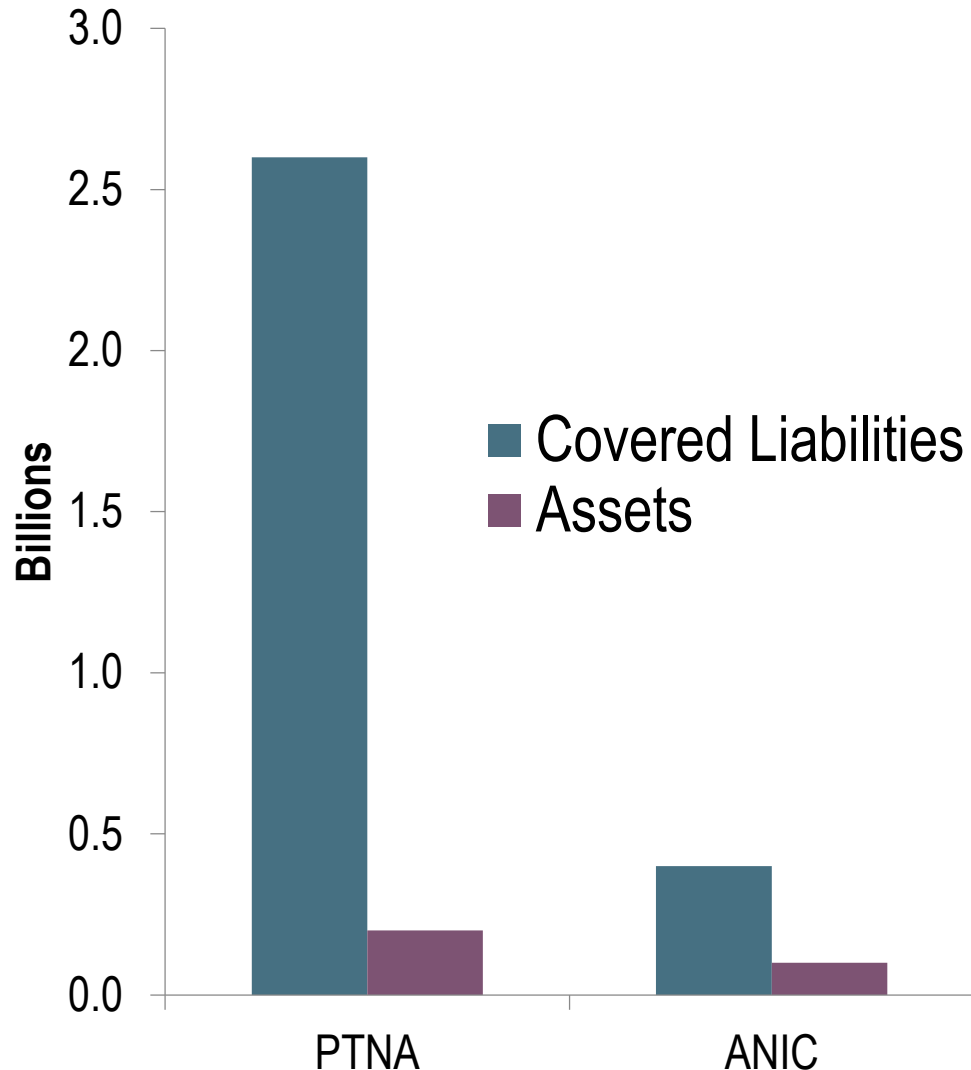
2009

Commonwealth Court enters orders of rehabilitation for PTNA and ANIC

2017

PTNA and ANIC placed in liquidation

Expected Liquidation Costs As of Liquidation



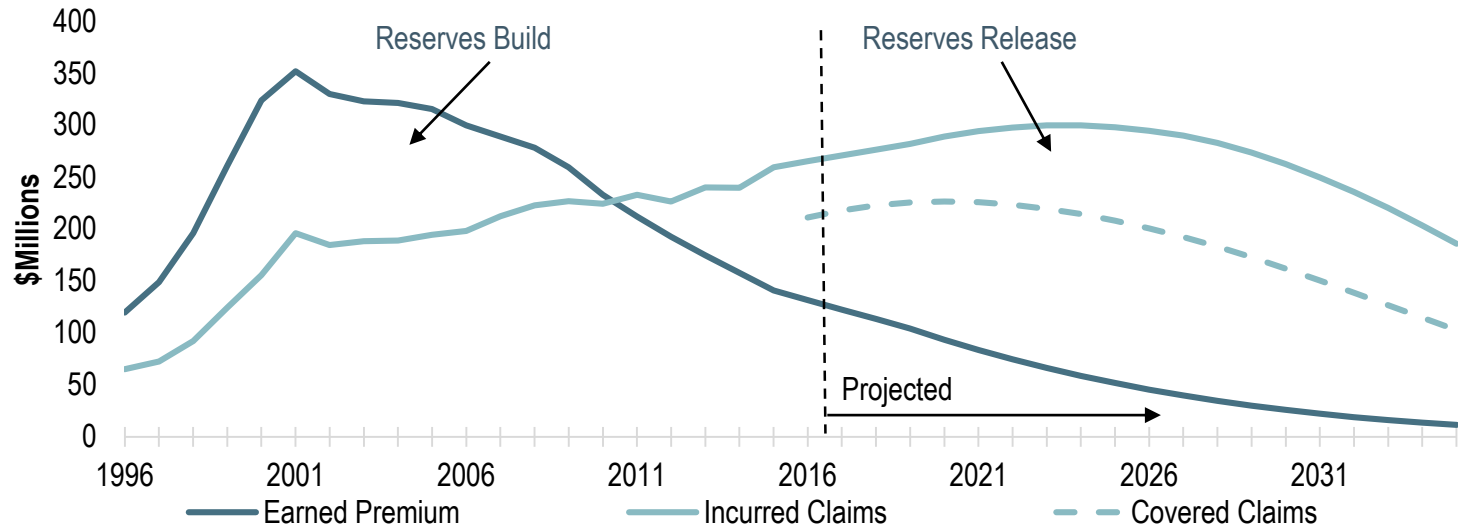
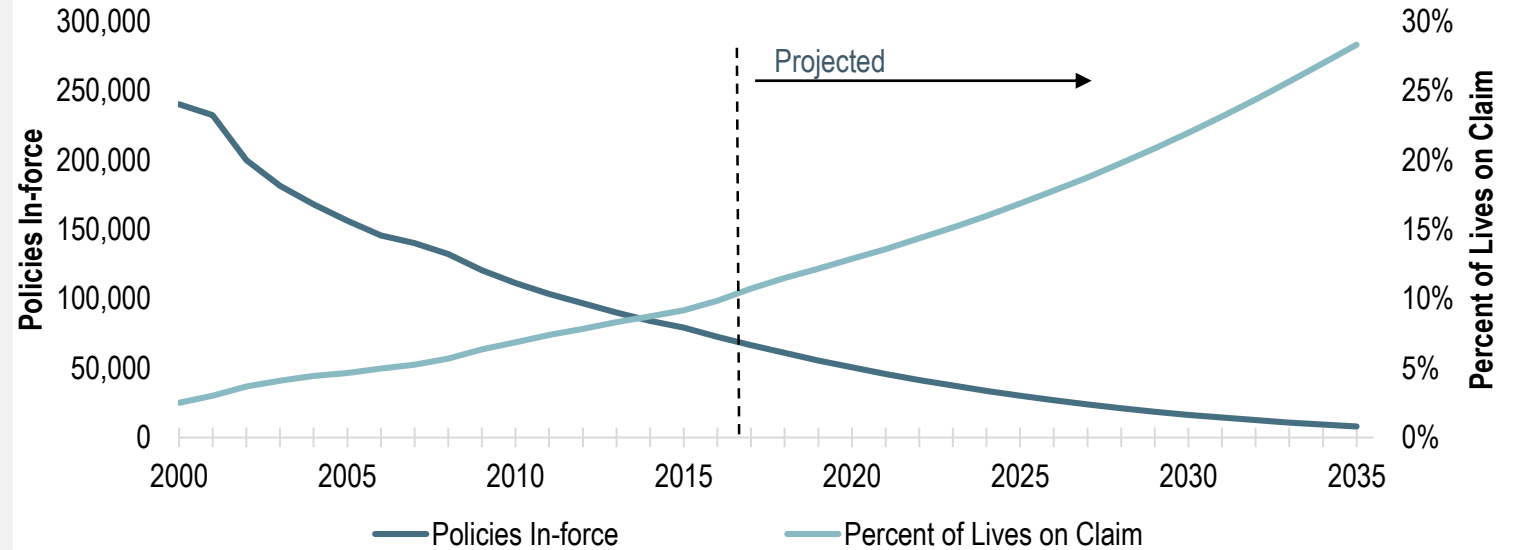
- Liabilities estimated to be in excess of \$2.7 billion greater than assets.
- Liability estimates are for benefits covered by the guaranty associations only.
- This excludes commissions, premium tax, benefits in excess of GA limits.

Over 70,000 policyholders
as of liquidation

Financial Drivers

Inforce dynamics:

- This block exhibits traits that are typical of LTC insurance blocks.
- Policy counts have been in decline since 2000, mostly due to mortality.
- Percentage of policies on claim increases steadily as people age.



Cash flow:

- Issue-age rating and increasing claim prevalence creates a cash flow mismatch.
- Reserves build while cash flow is positive and are released later.
- This block has not collected enough premium historically to fund future cash outflows.

LTC Re

50 Guaranty Associations

How are they going to run off liabilities for 50+ years?

- LTC Reinsurance PCC is a protected cell captive insurance company
- Formed by certain state guaranty associations
- Licensed under captive laws of the District of Columbia

Rate Increase Strategy

How will the asset shortfall be mitigated?

Who will pay and how much?

- Rate increase strategy
 - Targeted increases; Varies by issue state, issue age and inflation option
 - Benefit reduction offers include: Drop inflation, RPU and cash payment
- GA assessments
 - Recent changes to the model law



LTC Issues

Recent industry topics



GE reserve charge of \$15 billion announced in early 2018



China Oceanwide acquisition of Genworth



Penn Treaty Liquidation


Recent regulatory discussions

- Recouping past losses via rate increases
- Rate increase approvals on “small blocks”
- Standard template for rate increases
- Reserve adequacy documentation and guidelines

A grayscale photograph of a tall, cylindrical lighthouse with a glowing lantern room at the top, set against a hazy sky and a rocky coastline. The image is partially obscured by a large blue diagonal overlay on the right side of the slide.

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