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From the Desk of Claude Thau

For the most part, Leslie Scism's Wall Street Journal article is accurate, however it leads readers to reach false conclusions. From ***my*** perspective, it is clear that:

1. Insurers are losing a lot of money on their old LTCi policies. Although it was clear from the start that LTCi was a risky business, the "perfect storm" problems that the insurers are experiencing was unforeseeable.
2. 2. Both claimants and healthy policyholders cherish their policies (for good reason), hence will either stretch to pay the increased premiums or will reduce coverage to keep their policy in effect.
3. Price increases are a big problem for people who bought LTCi policies long ago and don't have the cash flow to pay the premium increases. While the insurers documented that the premiums were not guaranteed, I think they did not sufficiently convey the risk of a price increase to financial advisors or applicants.
4. 4. People who can afford the price increases are getting a good deal, although they expected a much better deal. I think it is appropriate that the burden of the adverse experience is being split between the insurers and the policyholders, but choosing the right balance is subjective. I empathize with both sides, but more so with the policyholders.
5. The industry is not meeting its potential in helping to solve the country's LTC financing problems. There are many reasons why the industry is not developing adequate market share. Some people blame the industry; some people blame various levels of government. However, human nature and other factors also contribute.
6. 6. Despite the problems, a good number of insurers have stayed in the market or entered the market, offering good ways that many people can insure their LTC risk.
7. The price increases are taking a heavy toll on the industry, partly because media attention is focused on these older blocks, which causes people to be unduly wary of good opportunities to protect against LTC risk.
8. The problems of existing policyholders, while severe, are significantly less common than Ms. Scism suggests.
9. 9. A key issue: How do we encourage insurers to develop coverage for new risks, particularly distant future risks (long-term care is much more risky for insurers than annual property and casualty risks such as cyber risks).

The industry is losing money because the insurers ARE paying claims[1]. Insurers sometimes erroneously fail to pay a claim, but failure to pay a claim appropriately is not necessarily bad faith. I have generally succeeded in getting errors fixed or in explaining to the policyholder or family why the claim decision was right. The Independent Review process, which protects against some wrongly-denied claims, is rarely used, which suggests that claims are resolved fairly. To the degree that the July 2017 Milliman LTCi Survey was able to identify such appeals, independent reviewers supported insurers' declines in nearly 90% of the cases[2], which also suggests claims are resolved fairly. A 2016 study[3] found that 98% of LTCi claimants were satisfied with their claim payments and an earlier federally-funded study[4] found large satisfaction as well. (Footnotes are on page 3 of this document.)

Our society spawns a significant number of fraudulent insurance claims in every line of insurance, including LTCi. Insurers have a responsibility not to raise premiums in order to pay fraudulent claims. Their efforts to avoid fraudulent claims can contribute to (but not fully explain) frustrating claims processes (16% of claimants do not consider the claims process to be easy.[5])

Ms. Scism wrote “some policyholders complain that it [the industry] has nothing to lose by denying legitimate long-term-care claims”. She failed to address that complaint appropriately. One of the key risks of denying a LTCi claim is the huge risk of a (possibly class action) law suit. In my view, insurers too often pay claims because the cost of defending a lawsuit would be expensive, even if successful. Perhaps that contributed to a federally-funded study concluding that insurers overpaid LTCi claims by 3.4%[6].

Ms. Scism’s title refers to “Millions… Face An Awful Choice” and her second paragraph starts “Now, though, the industry is in financial turmoil, causing misery for many of the 7.3 million people who own a long-term-care policy, equal to about a fifth of the U.S. population at least 65 years old.” This sentence is inaccurate and misleading in several respects:

1. There were 47.8 million above age 65 as of July 2015[7], obviously even more today. Dividing the “7.3 million” by 47.8 million produces less than 15% (still overstated), not “about a fifth” as she wrote.
2. She is including people below age 65 in the numerator but not in the denominator. If she did an apples-to-apples comparison, the ratio would be significantly lower than even 15%.
3. She is also including policyholders who no longer pay premiums (generally because they are on claim) and those who have purchased more recently-priced policies.
4. She wrote “Credit Suisse analysts tallied more than 4,500 rate-increase requests nationwide from 2009 to early 2017 by 16 once-big sellers of long-term-care insurance. The proposed increases affected hundreds of thousands of policyholders.” Even if all those “hundreds of thousands” are over age 65, the Credit Suisse data suggests probably less than 10% of people age 65+. Did she make any effort to reconcile the conflict between her statements and her Credit Suisse source?

Policyholders getting huge price increases is worthy of attention and discussion, but focusing solely on the plight of policyholders who bought LTCi long ago leads readers to infer that LTCi is not a good alternative for them today. The past problems have caused today’s products to be much more stably priced. Furthermore, Ms. Scism dismisses the popular combo products (“But such products are often costlier”), without mentioning that many of those combo products are entirely guaranteed, which protects against the “misery” she cites. By the way, of course it costs more if you add a potential death benefit to LTCi coverage. I believe articles about price increases on old policies should make strong efforts to explain that the situation is tremendously better today.

Footnotes

[1] NAIC Experience Exhibit Reports through 2014 show LTCi claims compounded 12% per annum from 2001-2014. The author did not seek more recent information; growth clearly has continued albeit at a rate that the author can't quote. See also the subsequent proof that claimants are satisfied, etc..

[2] Thau, Claude; Schmitz, Allan; and Giese, Christopher, Milliman LTCi Survey, Broker World Magazine, July 2017, p. 3 of the reprint.

[3] LifePlans, "Experience and Satisfaction Levels of Long-Term Care Insurance Customers: A Study of Long-Term Care Insurance Claimants", September 2016, p. 14. "…only six percent of claimants had a disagreement with their insurance company about policy coverage, and the majority of these disagreements (65 percent) were resolved to the satisfaction of the claimant. Put another way, for every 100 people making claims under their insurance policy, only two are likely to have had a disagreement about coverage that was not solved to their satisfaction." A table on page 22 shows that 70% of claimants were "very satisfied" with their policy, 27% were somewhat satisfied, 2% were somewhat dissatisfied and 1% were very dissatisfied. The lower satisfaction rate in this table appears to reflect the claims process as well as the amount paid, whereas the 98% statistic is related solely to the amount paid.

[4] U.S. Department of Health and Human Services, Office of Disability, Aging, and Long-Term Care Policy (2006 and 2008). "Service Use and Transitions: Decisions, Choices, and Care Management Among an Admissions Cohort of Privately Insured Disabled Elders" (2006); "Following an Admission Cohort over 28 Months to Track Claim Experience, Service Use, and Transitions" (2008); "Care Management, Claim Experience, and Transitions Among an Admissions Cohort of Privately Insured Disabled Elders over a 28-Month Period" (2008). This study found that 14% of home care claimants, 5% of assisted living facility (ALF) claimants and 11% of nursing home claimants were dissatisfied. It differed from the 2016 study in that this older study dealt with people earlier in the claims process. Satisfaction apparently increases with time on claim, perhaps because the paperwork hassle is concentrated at claim initiation and because the monthly payment tends to increase and cumulative payments definitely increase.

[5] LifePlans, "Experience and Satisfaction Levels of Long-Term Care Insurance Customers: A Study of Long-Term Care Insurance Claimants", September 2016, chart p. 15 shows that 78% said it was easy; 15% said it was difficult and 7% did not know. Of those who expressed an opinion, 15/93=16.2% thought it was difficult)

[6] National Long-Term Care Insurance Claims Decision Study: An Empirical Analysis of the Appropriateness of Claims Adjudication Decisions and Payments, April 2010; Figure 5; p. 11 Total Paid/Total that should have been paid = Total Paid/((Total paid - (Amount that auditors would have denied – amount that auditors would have approved)) = $155,925,300/(155,925,300 – ($5,905,708 - $719,999)) = 3.4%

[7] See https://www.census.gov/newsroom/facts-for-features/2017/cb17-ff08.html