



**Actuaries
Summit**

**get involved,
get ahead**

20 – 21 May 2013
Hilton Sydney



Long Term Care Insurance

– a survey of insurer attitudes

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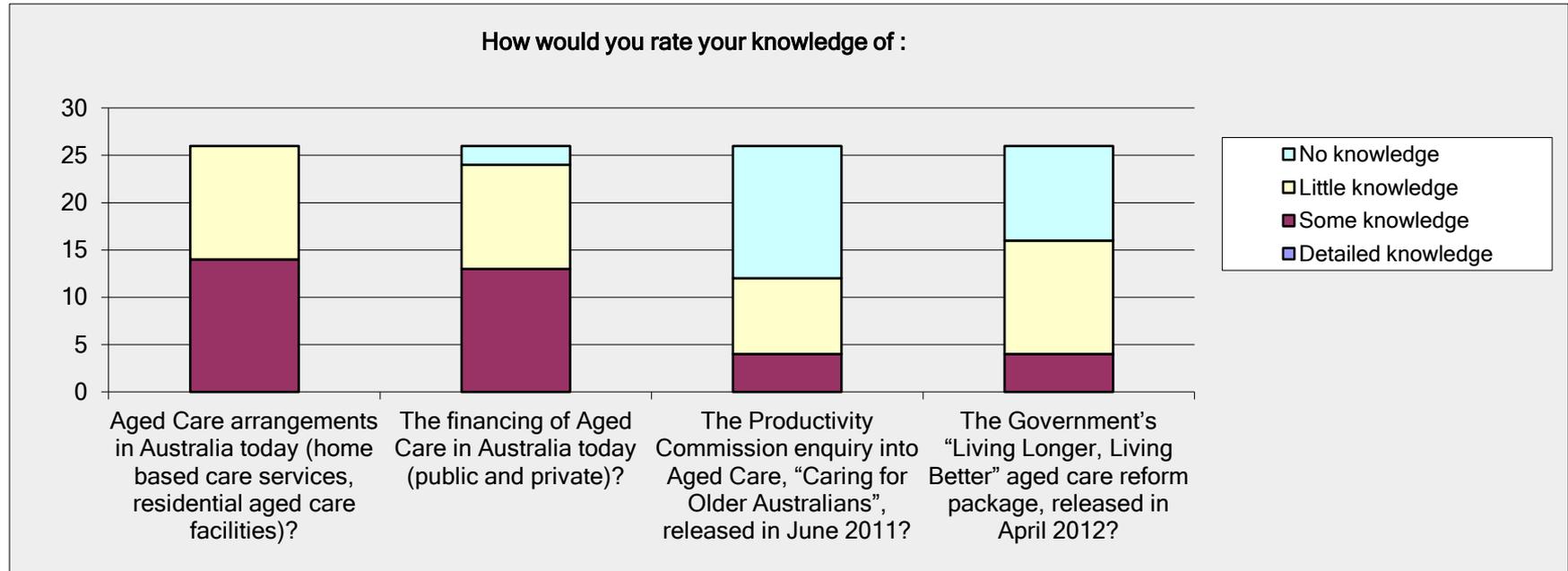
Introduction

- Approached:
 - Life Board of the Financial Services Council
 - Life Insurance and Wealth Management Practice Committee of the Actuaries Institute
 - Other known interested parties
- Online survey – 26 responses
- Personal interviews – 6 interviews
- 2012 Research Grant from the National Seniors Productive Ageing Centre

Online survey

- Awareness
 - Aged Care provision
 - Aged Care financing and reform
 - LTCI
- Support / barriers for LTCI in Australia
- Views on future directions

Awareness of Aged Care financing and reforms





Awareness of LTC Insurance

Country in which LTCI exists	Number of respondents identifying
United States	19
United Kingdom	10
France	8
Germany	4
Singapore	3
Canada	3

Australia, Israel, Japan, South Africa, and New Zealand were identified by one or two respondents.

Note: participants are allowed to specify more than one country. Hence, the total does not sum to 26.



Is the risk insurable ?

- Respondents were asked "If you believe that Long Term Care need is not an insurable risk, please specify why you think this"
- Only 4 responded, implying 22 believe the risk is insurable.
- 3 out of the 4 comments also considered the risk to be insurable:

I believe Long Term Care **is an insurable risk**, the question is one of degree.

Not sure one can define an indemnity product, but a fixed benefit **seems insurable**

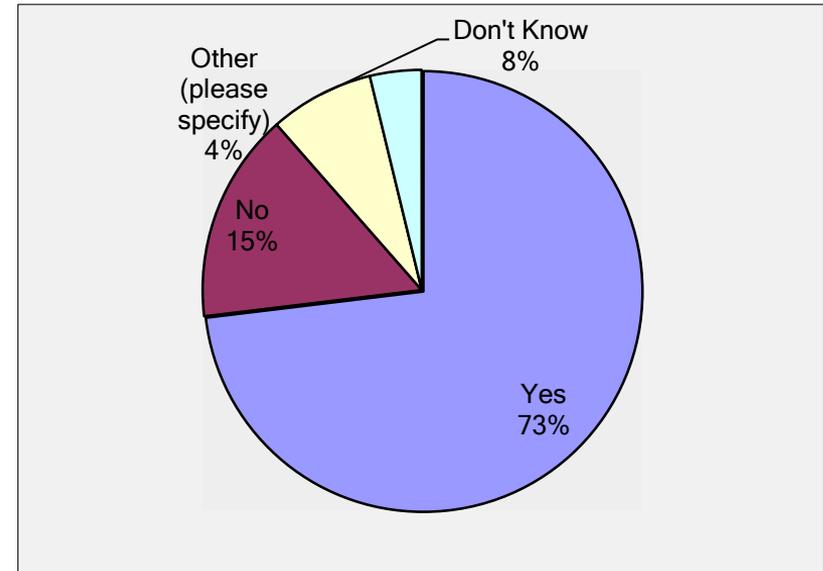
It should be an insurable risk, but one for which awareness and therefore demand is low.

To be an insurable risk there has to be a market for it - not sure a market exists at the moment (value vs price)

Potential suitability of existing product for the Australian market

- Survey outlined the basic structure of French and US products
- "Do you think a private, voluntary insurance product which paid a regular benefit when the insured reached a defined level of Aged Care need could be a worthwhile product in the Australian context?"

"Yes, but the market isn't ready for it."



Reasons for supporting LTCI in Australian context

- Financial need (11)
 - “unable to fund their choice, or even any, form of aged care”
- Ageing population (3)
 - “an increasing older age population with a defined insurance need that isn't currently catered for.”

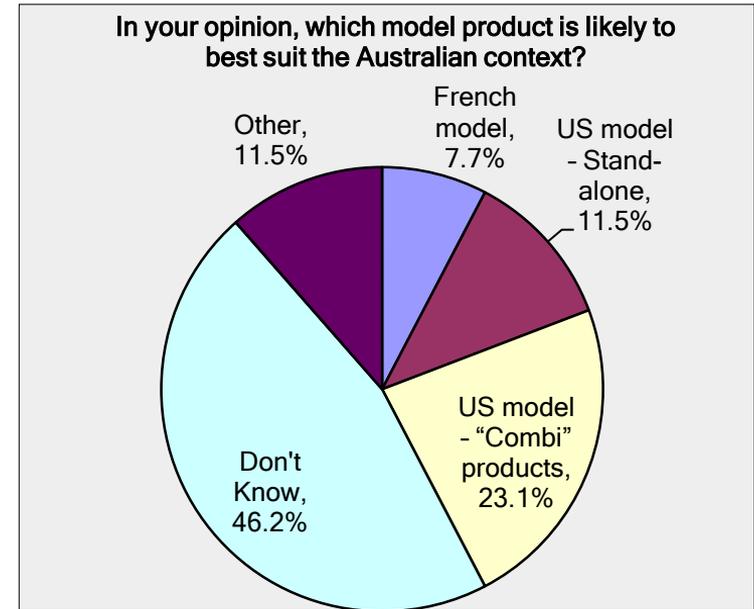


Barriers to LTCI in Australian context

- Limited demand (7)
 - “There would be no consumer demand for it”
- State will provide (4)
 - “Too long term, perception of State provision”
- Need for government intervention (3)
 - “Consumer resistance without any significant government intervention”
- Other
 - “Hard enough as it is for people to retire with adequate retirement income”
 - “impression care is fairly good even if you do not have the resources, so not sure I see the need”

Preferred model ?

- About half didn't know
- Little interest in French model, especially participation
- Combi preferred to stand alone
- Comments were most informative





Comments around preferred model

- Product design (6)
 - As a rider
- Specific attitudes (5)
 - “The challenge is getting a product that customers will buy. Which of these options will work is a matter for market testing”
- Specific regulation (3)
 - “LTCI works best where fully integrated with state provision “
- Transparency (2)
 - “Hard to see a participating model working with Australian consumers (lack of transparency/clarity).”
- Other points of view
 - “None of them would be saleable”

A ranking of supply side barriers

Rank	Supply-side barrier
1	Limited market profitability due to current market size.
2	Regulatory constraints or regulatory uncertainty
3	Uncertainty over future costs of long term care provision.
4	Lack of knowledge about long term care and/or care insurance products by independent financial advisors.
5	Uncertainty over future design of care provision in Australia and the future role of informal carers; it is therefore difficult to design complementary products.
6	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.
7	The risk of adverse selection, where demand for care insurance comes largely from individuals with a higher risk of care needs arising, and asymmetric information means that insurers may not be aware of the higher risk profile.
8	The reputational risk associated with decisions not to pay/meet insurance claims of policy-holders in certain circumstances.
9	Costs associated with, and uncertainty as to the trustworthiness of, assessments of individual care needs.



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Other supply side barriers (7 mentions)

- Cost
 - “Is an expensive product, and therefore market would be small.”
- Too long term
 - “Australian consumers have generally avoided ... paying now for something in the far future”
- Lack of consumer appeal/awareness
 - “Customer knowledge - lack of education”
- Other
 - “Potential for improved government provision of services, removing the market for private insurance”

A ranking of demand side barriers

Rank	Demand-side barrier
1	The complexity and high cost of care insurance products.
2	Ignorance of the risk of future care needs, exacerbated by a lack of advice on risk and/or products, and of financial capability.
3	A belief that long term care is funded entirely by the state, or an expectation by individuals will qualify for free care under a means-tested system.
4	Behavioural barriers such as hyperbolic discounting, whereby individuals exaggerate the value of the present and therefore discount the possibility of care needs and/or financial problems arising in the future.
5	The unpredictable nature and extent of future care needs, cost of required care services and the proportion that might be covered by insurance.
6	A belief that family members will provide care informally, and/or a desire to preserve assets to support informal carers rather than transfer them to insurance companies to cover a need that may not arise.
7	The bequest motive (a desire to preserve assets for future generations); expectation of an inheritance which would cover the cost of care should need arise.
8	Distrust of financial services.



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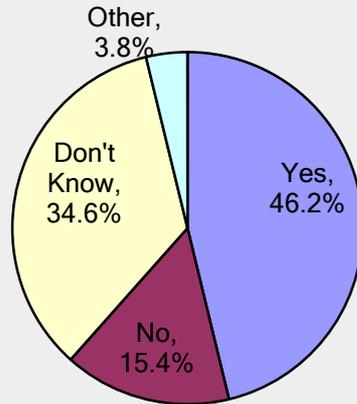
Other demand side barriers (4 mentions)

- Too long term
 - “People aren't interested in buying protection against a risk that won't eventuate until many years into the future. That's why there is no market for lifetime annuities and tax concessions and compulsion are necessary to get people to invest in superannuation”
- Wealth paradox
 - “Low to middle income earners feel the government will look after them. Higher net worth, who are aware they may need/want something better than government provision, rely on having enough assets to fund their need.”



Views on future directions – impact of LLLB

Will LLLB increase likelihood
of LTCI developing?



Illustrative comments

No *an issue for the future, not for now. The ones that need it in near future will not be able to afford it.*

User pays only applies if you have sufficient assets. If you have sufficient assets you don't need insurance.

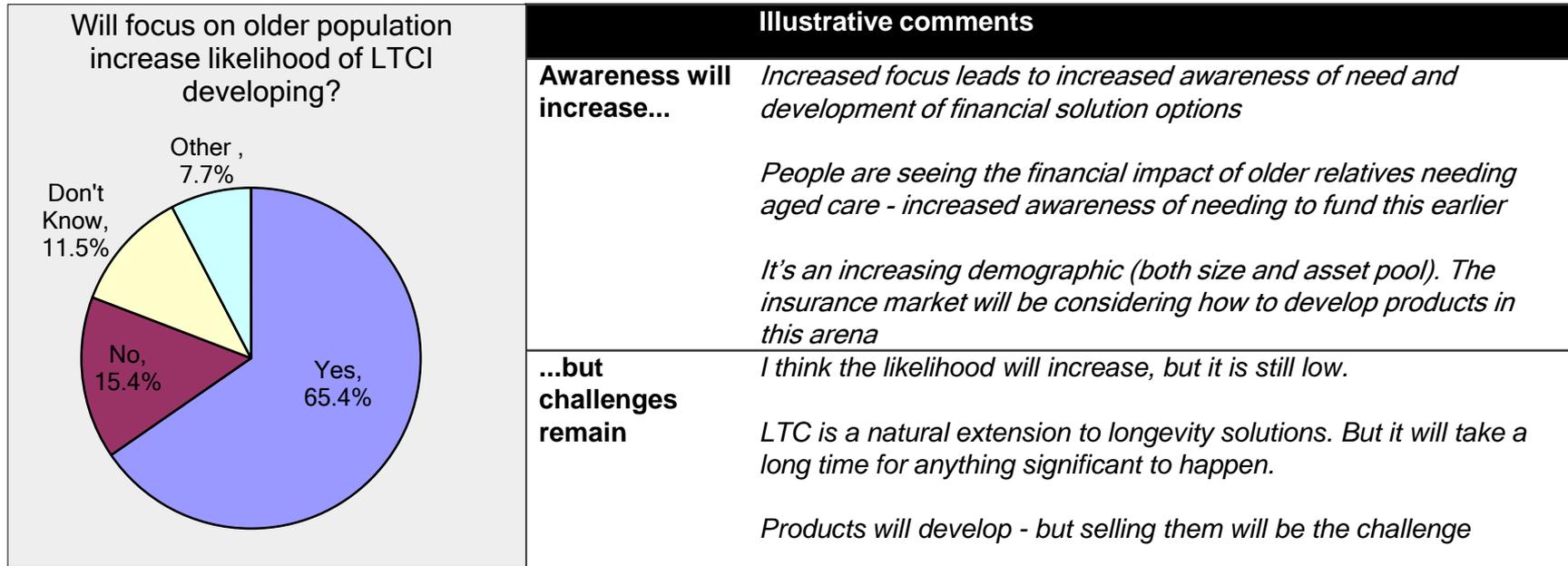
General low awareness ... "she'll be right" or the "government will look after me" etc. A package without promoting the need to self insure will have little impact on demand ... Working Australians in general have little income protection insurance and so leave their young families with the risk of loss of life style - why would people become interested in insurance in the aged segment. If the government is looking to reduce the burden of aging population ... then it needs to play a greater role in promoting the need to insure.

Yes *Any transfer of potential costs onto users is likely to have some impact on the ability for providers to market LTCI products*

Costs will become more apparent earlier - ... the challenge will be to make the products cost effective and profitable

like health insurance, increasing the profile of the need, and making it clear that the state only provides a minimum level of care will encourage those who can afford it to buy insurance

Views on future directions – focus on older population





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Conclusion from Online Survey

- Perception of growing need
 - Openness to the role insurance ought to be able to play
 - But negatives clearly outweigh the positives currently
-
- Turning to the personal interviews...

Personal Interviews

- Key themes:
 - Product development
 - Stresses in the supply of care
 - Role of Government
 - Financial exposure
 - Avoidance of facing the risk
 - Influence of personal experience

Product Development

- Reinsurer was most common vector
- Tailoring to local market is key
 - With provision and financing of aged care
 - With consumer attitudes and behaviours
- *if you got the **magic formula** in terms of affordability, structure of the product, and people seeing the worth of it, and I guess if you got the advisors on board*
- *So the industry, if it really was concerned about doing **market research**, and about designing its products to meet the needs of its clients, would look not at not what they need, but at **what people want as beneficiaries***
- *I think **as a reinsurer knowing globally this has not worked** we would probably want to unpick and understand how it would be very different here back to, you're trying to figure that out as well, we'd want to probably understand **what are the structural reasons why** it didn't work*



Stresses in the supply of care I

- From the individual's point of view:
- you know they [respondent's elderly relatives] wanted to be somewhere together, and that's *really not an affordable option* for them, and it's kind of this whole ability to kind of determine where you go, and to *choose, as opposed to just taking something because it's all there is*
- *I don't know how much of a choice is available...* I get the impression occupancy rates in the 80s and 90s are quite normal, and therefore there's not, it's not a situation where there's just these you can go out and do anything you want
- I have had the personal experience of my parents here particularly my mother who was in long term and nursing care for many years and I had *difficult experiences* with her and *finding places...*, but clearly looking around Sydney *the quality of stuff didn't excite me* to be perfectly honest



Stresses in the supply of care II

- From the aged care services provider's point of view:
- *people are realising there is absolutely no mileage*
- *very hard to make money out of*
- *my understanding is a lot of aged care organisations are losing money*
- *last year ... 20 retirement villages around Sydney went into receivership*
- *should be growing ... A lot of people going into the market think there's money to be made and a lot of money lost*

Role of government

- Industry will be seen as self-interested: need government to raise awareness of risk and potential costs
- Industry needs a stable environment: but recognition that long term planning is a challenge for government
- Implications of the potential for government withdrawal – explicit or implicit – from the provision of services

Financial exposure

- Possibility of very significant financial exposure
 - “the money he quoted he was paying was astronomical”
- Impact of choice
 - “a bit like the education system... where there’s money available or where there’s choices, people will choose something... they perceive as better”
- Wealth paradox
 - “if you had the money you’d be fine, if you didn’t have the money you’d be looked after pretty well anyway”



Avoidance of facing the risk

- *planning for the time when they may well not be able to look after themselves in a competent way, is not a pleasant thought, and I don't think people naturally think about it... I know I don't like to think about it*
- *They are still fighting going into a nursing home, that's the last, that's the foot in the grave kind of stuff*
- *I think the biggest struggle with this is it's just something people do not want to think about, and when they try and picture themselves in those final years, no one wants to think about themselves in some kind of delusional dementia state*
- *that's a tough sell, for something that you don't want to think about anyway*
- *It's not going to happen to me. They can't imagine, unless they know someone who's disabled, they can't imagine themselves in that situation or imagine... Same with aging*
- *one thing maybe that was missed is ... people's actual willingness to spend money on any insurance, let alone one that seems a bit ... remote to people*

Influence of personal experience

- Brings the issues “front of mind”
- But wouldn't influence action in professional life (eg product development)

Conclusion

- Cautious optimism
- Recognition of significant hurdles
- Role for government

- Limitations
- Acknowledgements

- Further suggestions?