

MILLIMAN REPORT

COVID-19 Impact on Long-Term Care

A Survey of Company Experience

November 2020

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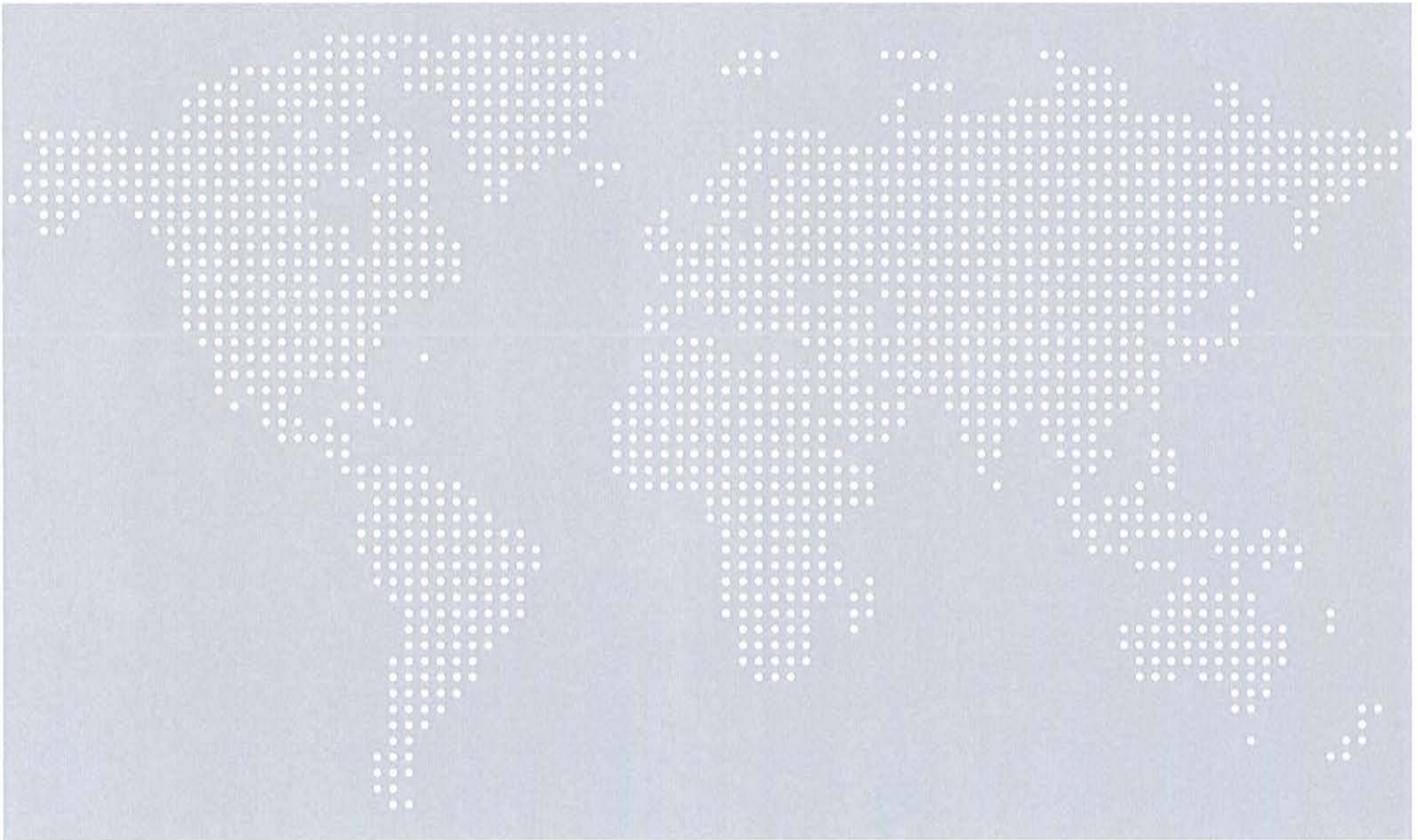


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Section 1: Introduction

Milliman conducted a survey of long-term care (LTC) insurance companies pertaining to the potential impact of COVID-19 on LTC business. The results of this survey, which was conducted during August and September 2020, are presented in this report. In addition, Milliman hosted a webinar on October 15, 2020 in which the results of the survey were discussed along with other considerations. A recording of the webinar and the accompanying slides can be found at <https://us.milliman.com/en/video/webinar-long-term-care-in-a-covid-19-world> or by contacting the authors of this report for additional information.

BACKGROUND

The purpose of the survey was to capture how COVID-19 has affected LTC insurance. The survey was sent to companies with standalone LTC blocks of insurance. There were 20 companies that participated in the survey. The survey consisted of a series of questions about the potential impact of COVID-19 on LTC insurance. For some of the questions, participants were given the option to select multiple responses if more than one response was consistent with their experience. Also, for many questions, participants were given an "Other" option to select. This option allowed companies to communicate their own response if none of the answer choices aligned with their experience or views.

The survey focused on the experience since the onset of COVID-19 in regards to mortality, voluntary lapse, and morbidity. The survey also addressed the current interest rate environment and asked respondents about their plans for year-end reserve testing. A full copy of the survey that was utilized is provided in the appendix to this report.

RELIANCE AND LIMITATIONS

In conducting the COVID-19 survey and preparing this report, we have relied upon the information provided by the contributors. To the extent that this data is incomplete or inaccurate, our results may be materially affected.

This report may not be published in any other form without written permission from Milliman. Milliman does not intend to benefit any third-party recipient of its work product.

The information in this report is intended to be valid as of the date it has been prepared. Its future validity depends on the further development of market events, regulations, and standards of practice.

QUALIFICATIONS

Mike Bergerson, FSA, MAAA, Andrew Dalton, FSA, MAAA, Robert Eaton, FSA, MAAA, and James Stoltzfus, FSA, MAAA are principals and consulting actuaries with Milliman. This report provides an opinion regarding the impact of COVID-19 on LTC companies. We are all members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries for rendering this opinion.

ABOUT MILLIMAN

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property and casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

Section 2: Survey Highlights

This section describes key observations from the survey results presented in Section 3.

GENERAL

Overall, the survey results show that there remains significant uncertainty concerning the impact that COVID-19 will have on LTC insurance and how persistent the impact will be. While a slight majority (60%) of respondents report that they expect a short-term impact of the pandemic, those 60% of respondents are relatively evenly split concerning the longer-term implications, with 35% expecting insignificant long-term effects and 25% remaining unsure about the long-term effects. Some respondents (20%) remain unsure about even the short-term impact, highlighting the uncertain and emerging nature of the pandemic's impact on LTC.

The foregoing statistics relate to the overall impact of the pandemic, without respect to any particular assumption, such as morbidity, mortality, or interest rates. As we will examine in this report, the uncertainty becomes even more pronounced when exploring particular assumptions, especially at a detailed or granular level. For instance, respondents reported that certain trends are starting to emerge with respect to mortality and morbidity generally, but data is sparse or unavailable when looking at experience by situs.

PERSISTENCY

- Half of the respondents reported observing an increase in total life mortality, with 15% observing only a slight increase (less than 5% increase) and 35% observing noticeably higher mortality (greater than 5% increase). The other half of respondents indicated that data was not yet available or that there was no observable impact. No respondents reported an observed decrease in mortality.
- It appears to be early for companies to have studied the relative impact of COVID-19 on active life mortality rates versus disabled life mortality rates, with 45% of respondents indicating that they have not yet studied this issue. Of the 11 respondents that have studied this issue, seven of them reported that COVID-19 has had a larger impact on disabled life mortality rates than active life mortality rates; the other four reported no observable differences.
- Companies have generally not yet studied the differential impact of the pandemic on disabled life mortality rates by situs of care. A strong majority of respondents (70%) indicated that they have not yet studied the issue. Of the six companies that have studied the issue, three reported no observable difference; two reported a larger impact for claimants in a facility; and one reported a larger impact for claimants receiving care at home.
- It is too early to discern what impact, if any, COVID-19 will have on voluntary lapse rates. Fifteen companies reported no observable impact on lapses or that data is not yet available. Three companies reported that voluntary lapses have decreased in the short term but, at the same time, several companies reported that they have offered premium grace periods during the pandemic, which may have contributed to the decrease in lapse rates. Only one company observed a short-term increase in voluntary lapse rates.

MORBIDITY

- The biggest impact on morbidity observed by companies thus far has been related to claim incidence. A majority of respondents (55%) saw lower claim incidence. Eight companies (40%) reported claim incidence lower by more than 5%. These results may not be surprising given the stay-at-home orders and lockdowns that occurred throughout much of the U.S. during the second quarter of 2020.
- LTC utilization is often presented as "days" utilization, which measures the number of days per week or per month that services are utilized and "dollars" utilization, which measures the portion of the available daily or monthly benefit that is utilized. Most respondents (75%) observed either no observable impact (30%) or not having data yet available to study the impact (45%) of COVID-19 on LTC utilization. The remaining 25% of respondents indicated seeing lower claim utilization, with most seeing claim utilization being only slightly lower (less than 5% impact).

- Several companies reported seeing a shift in claim situs toward a home health care setting. This was true for both existing claims and new claims but especially so for new claims. It is important to note that it is difficult in many cases for existing claims to transfer from a facility setting to a home care setting in a short period of time. Therefore, if policyholder preferences have changed and there becomes more aversion to a facility setting due to COVID-19, we may observe a continued but gradual shift in situs mix toward home health care. While a shift in situs mix toward home health care is generally financially beneficial to LTC blocks since the services are cheaper than a facility setting, it could result in a company observing home health care utilization increasing as policyholders that require more care become more likely to try to stay in or transfer to a home health care setting.

LIABILITY SENSITIVITIES

- Higher-than-expected mortality typically results in lower LTC reserves, all else equal, so performing higher mortality sensitivities serves more to demonstrate a potential margin in reserves than to illustrate a potential insufficiency. COVID-19 is shown to increase deaths in the U.S., and specifically for older individuals who are more likely to have LTC insurance. We believe it is for these reasons that just over half of the survey respondents (55%) indicated that they do not expect to run additional mortality sensitivities during year-end testing.
- COVID-19 has already had an impact on emerging disabled life mortality for some LTC insurers. About half of insurers indicated that during year-end testing they would test reserves under scenarios of short-term increases to mortality. Some LTC carriers indicated that they would model sensitivities that increase mortality sooner, and decrease mortality later. One LTC carrier indicated that for sensitivity testing they are adjusting the slope of the mortality curve. Another LTC carrier noted that modeling issues prevented them from running mortality sensitivities.
- Three survey respondents indicated that they would test sensitivities increasing LTC morbidity, either in the short term (two respondents) or the long term (one respondent). Four respondents indicated they would test a short-term decrease to morbidity during year-end reporting. Two respondents noted that they would model some morbidity reversion, i.e., modeling a short-term decrease to morbidity following a catch-up to a longer-term average morbidity, or as a pent-up demand “release” (similar to some health care pandemic models). This morbidity reversion may consider that some people are less likely to enter a nursing home during the current COVID-19 pandemic, and that the demand will return once the pandemic recedes.
- When asked how our survey respondents would model pandemic morbidity sensitivities, three respondents indicated they will adjust incidence rates, three will adjust utilization rates, and one will adjust claim termination rates.

ASSET RELATED SENSITIVITIES

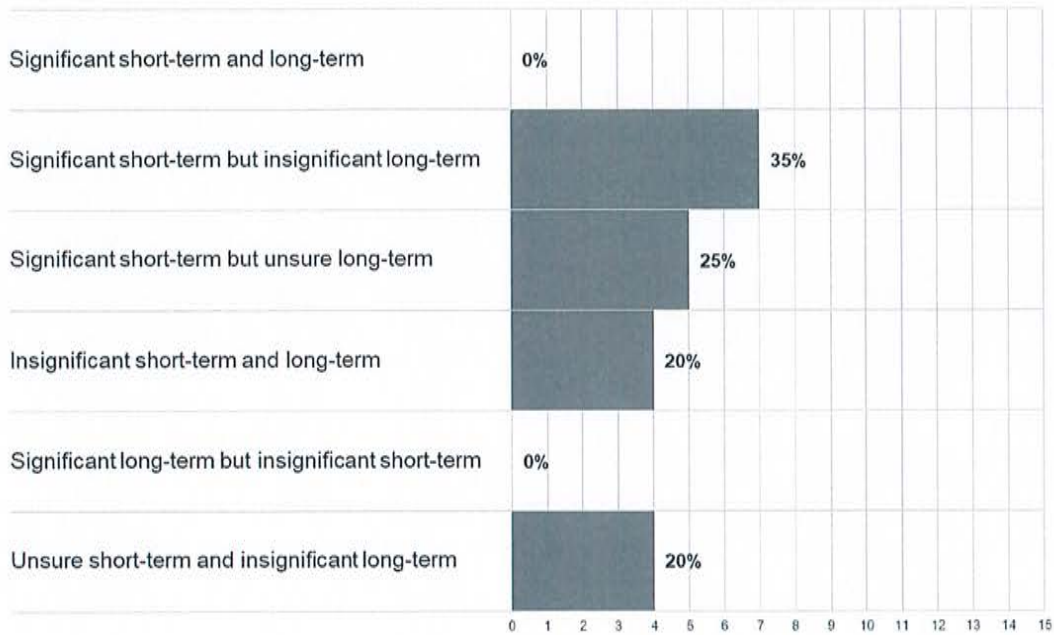
- The majority of companies surveyed plan to include additional interest rate scenarios and test scenarios that contemplate a mean reversion assumption.
- Some companies plan to allow rates to be negative in their testing.
- Several companies plan to test short-term spikes in default rates and several respondents plan to assume long-term changes in defaults.
- With respect to Gross Premium Valuation, responses were generally similar to Cash Flow Testing (CFT).
- With respect to GPV though, 25% of respondents stated that they are contemplating changing the methodology used for developing discount rates.

Section 3: Survey Results

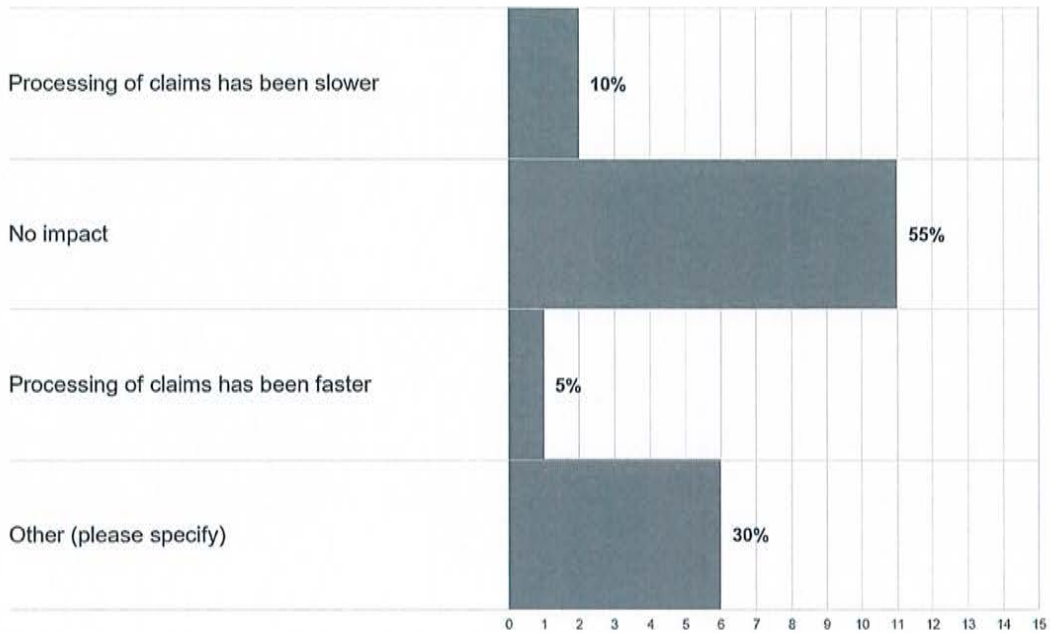
This section presents the survey responses for the 20 participating companies. Tabulations of the responses are provided below. Where comments were provided by companies, the comments are presented with only slight edits for readability and to preserve company anonymity.

GENERAL

Please select the response that best describes your company's position regarding the impact of COVID-19 on LTC.



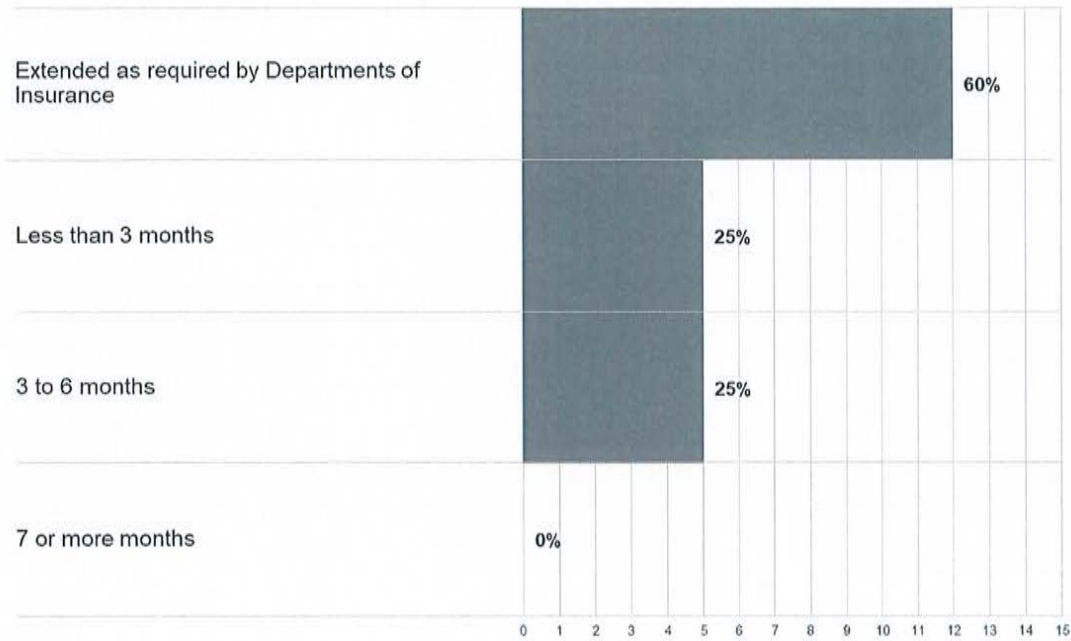
**Has your claim administration been impacted by COVID-19?
(Select the response that best describes your company's experience.)**



Other answers:

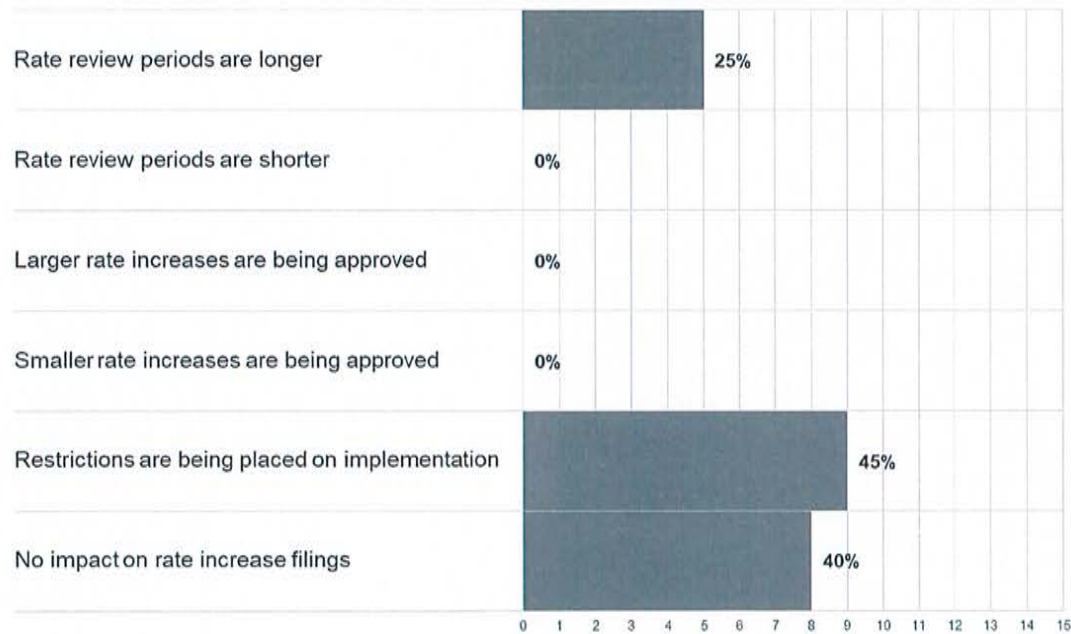
- A brief period where we had to back-fill for an office location that suddenly closed. But processing speed is back to normal.
- We cannot do in-person claim review.
- It takes longer to receive medical records.
- It has taken slightly longer to receive requested records and documents, but processing times have not slowed down.
- We are a reinsurer and do not administer claims ourselves.

**How long have you extended the grace period for premium collection during COVID-19?
(Select multiple responses if consistent with your company's plans.)***

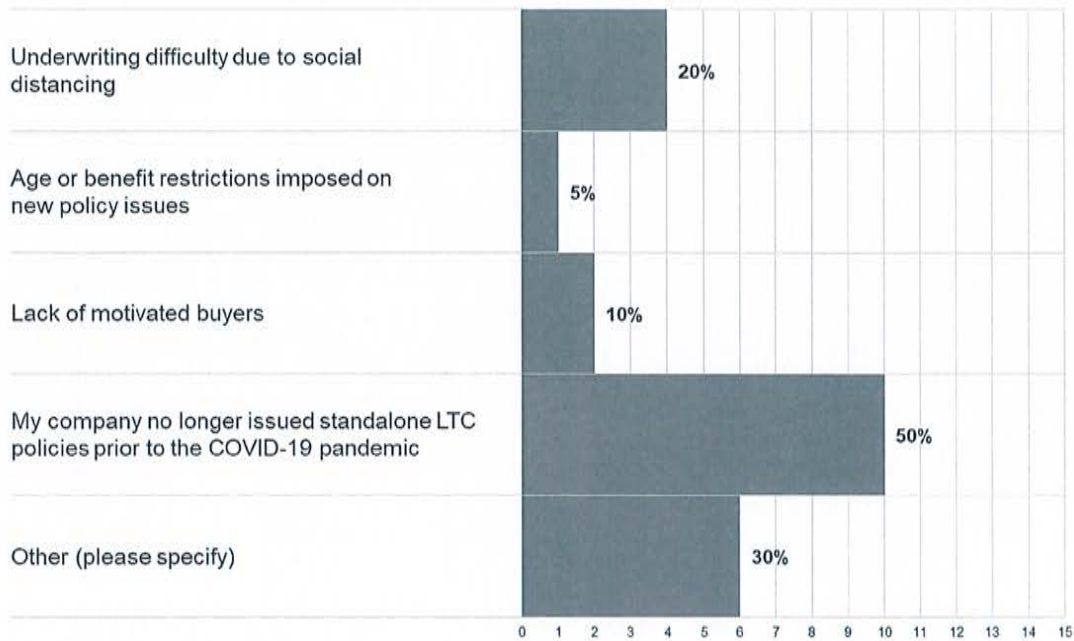


* Some companies selected both "Extended as required by Departments of Insurance" as well as the length of the grace period for premium collection.

**Has COVID-19 had an impact on rate increase efforts?
(Select multiple responses if consistent with your company's experience.)**



Have you experienced any challenges related to new business sales of standalone LTC policies during the COVID-19 pandemic? (Select multiple responses if consistent with your company's experience.)

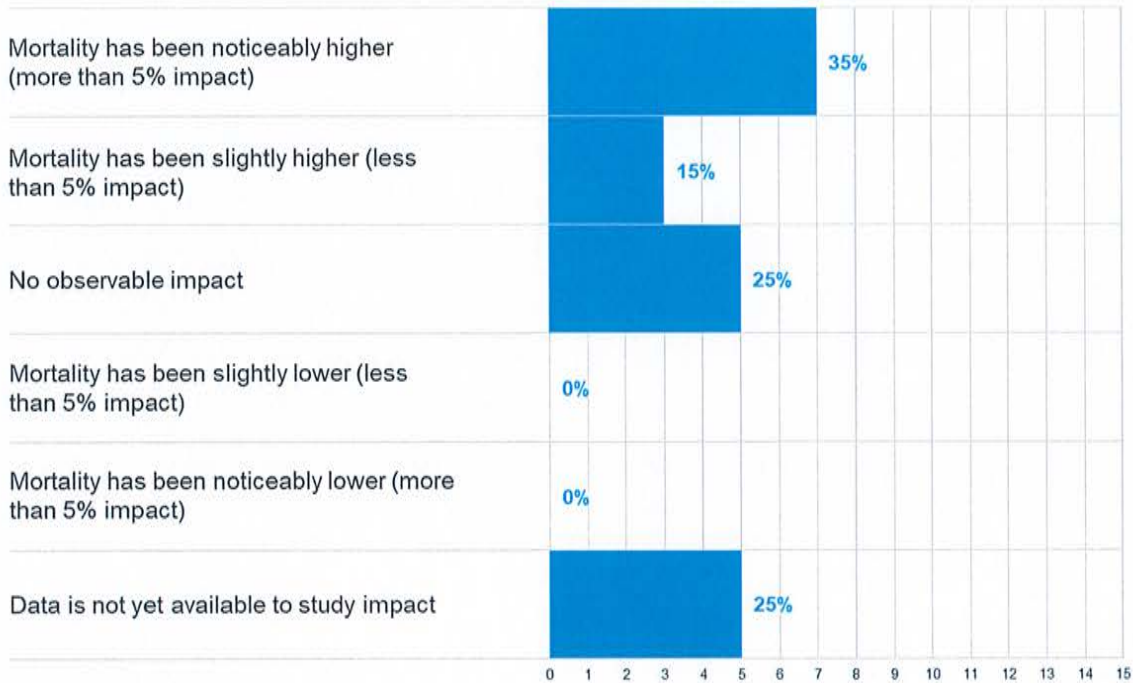


Other answers:

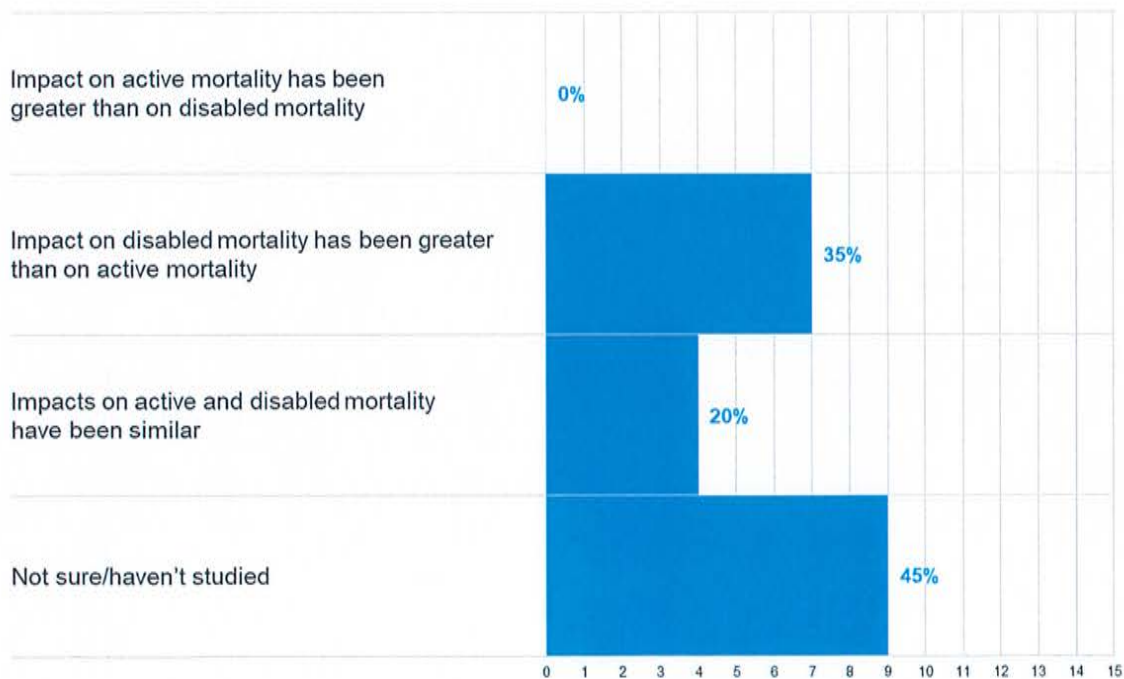
- We stopped marketing for the new product.
- Medical records take longer to receive.
- Agents are having difficulty meeting with prospective applicants due to social distancing.
- Agents have been having a more difficult time selling due to social distancing.
- Virtual sales difficult without electronic application.
- Not currently issuing new business (not related to pandemic).

PERSISTENCY

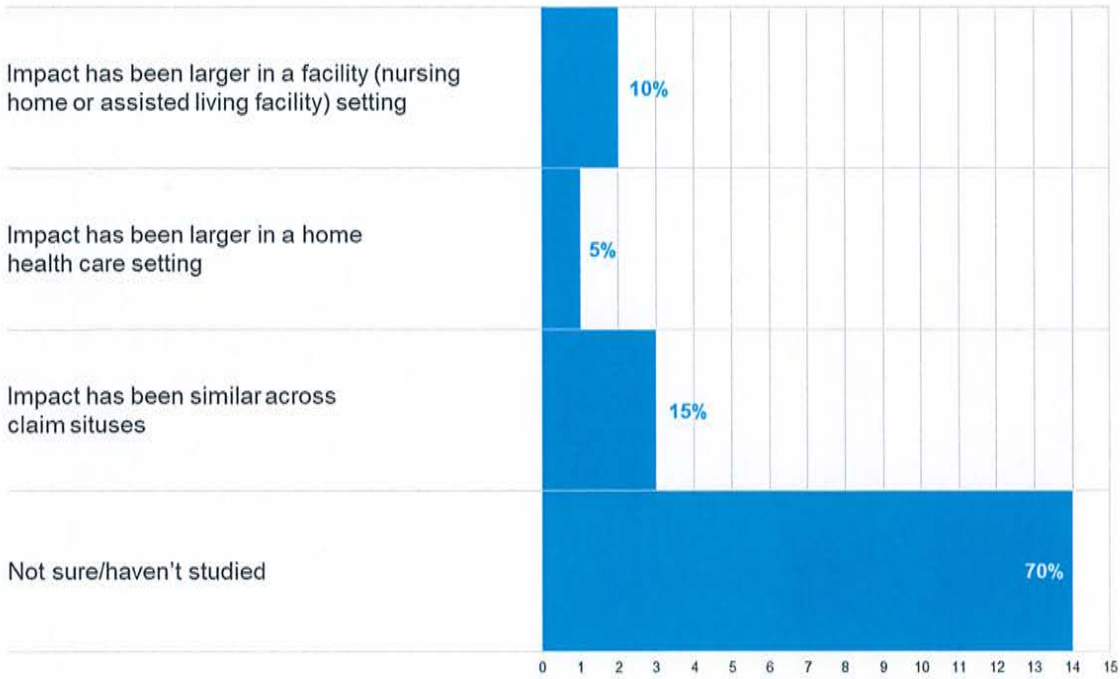
In the emerging LTC mortality experience since the onset of COVID-19, what have you observed? (Select the response that best describes your company's experience.)



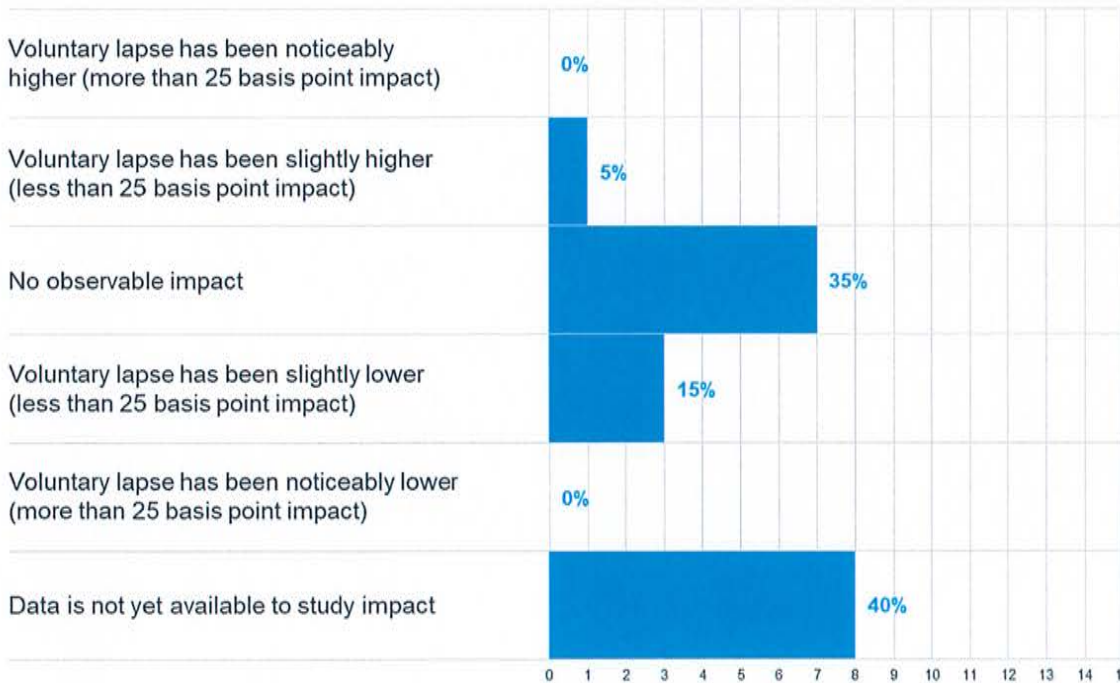
In the emerging LTC mortality experience since the onset of COVID-19, have you observed differences between active and disabled mortality impacts? (Select the response that best describes your company's experience.)



In the emerging LTC disabled mortality experience since the onset of COVID-19, have you observed differences by situs? (Select the response that best describes your company's experience.)

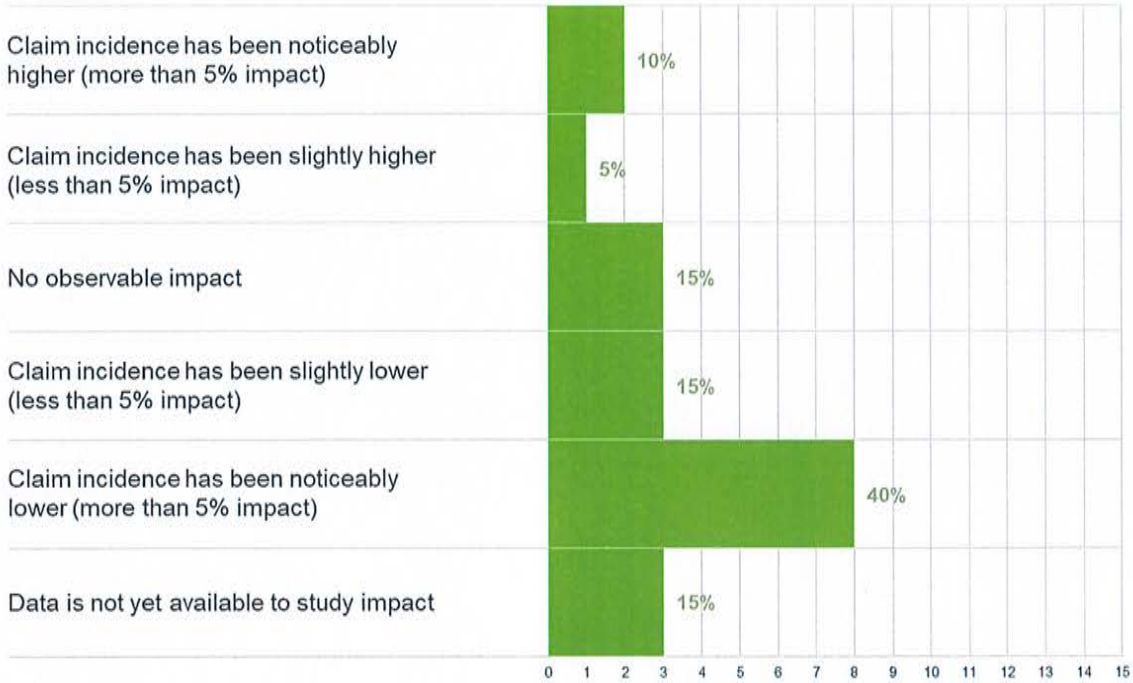


In the emerging LTC voluntary lapse experience since the onset of COVID-19, what have you observed? (Select the response that best describes your company's experience.)

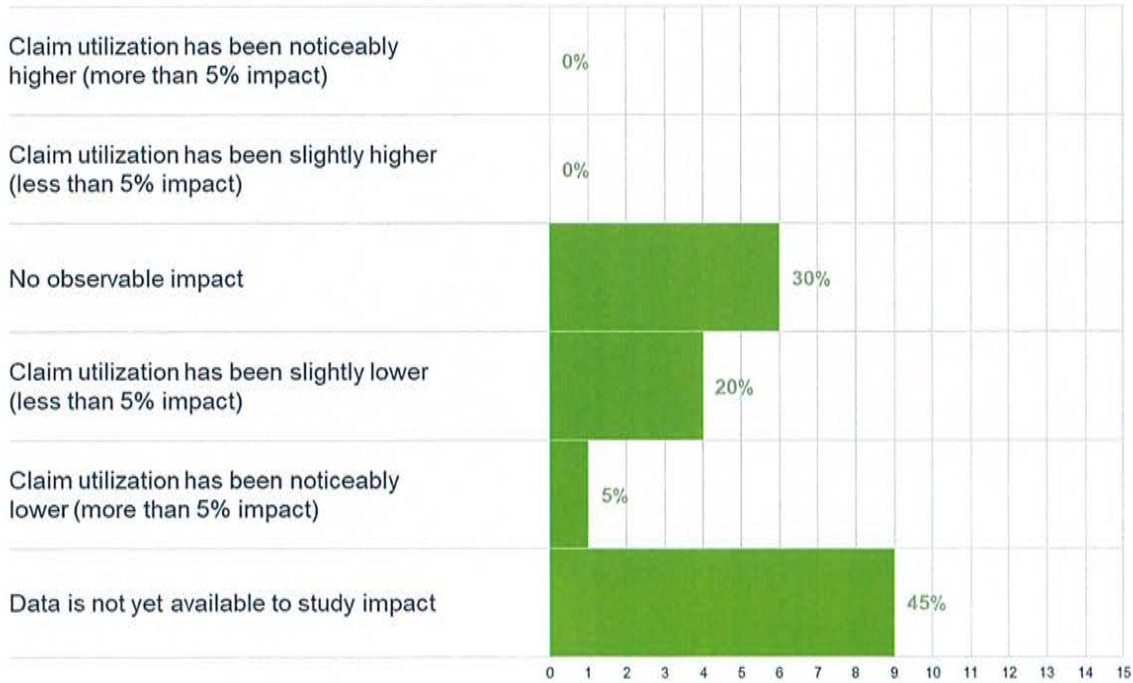


MORBIDITY

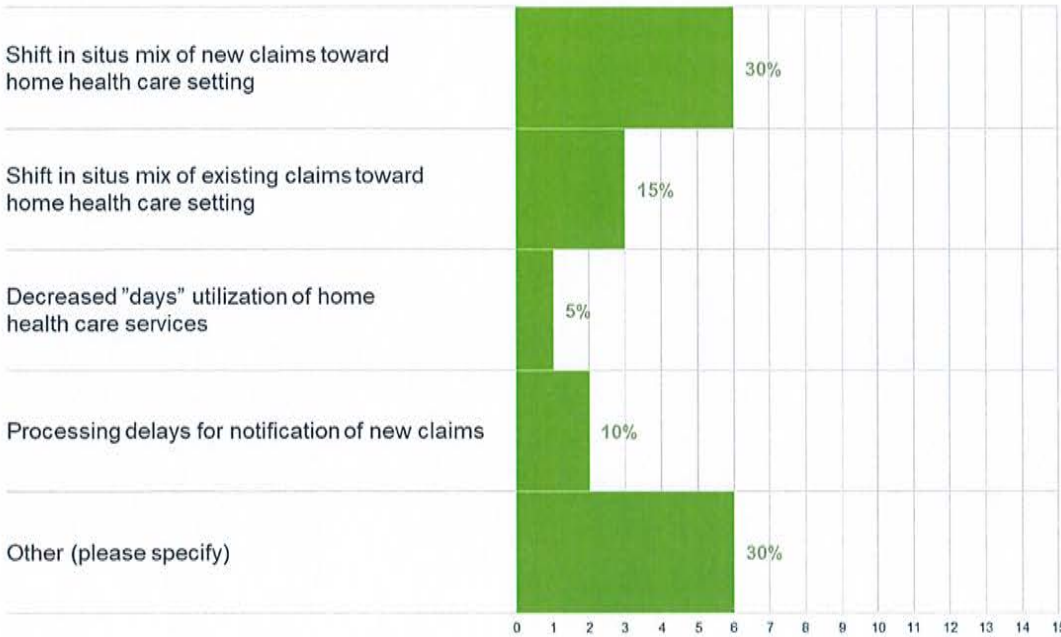
In the emerging LTC claim incidence experience since the onset of COVID-19, what have you observed? (Select the response that best describes your company's experience.)



In the emerging LTC claim utilization experience since the onset of COVID-19, what have you observed? (Select the response that best describes your company's experience.)



Have you observed any other impacts of COVID-19 on LTC morbidity? (Select multiple responses if consistent with your company's experience.)

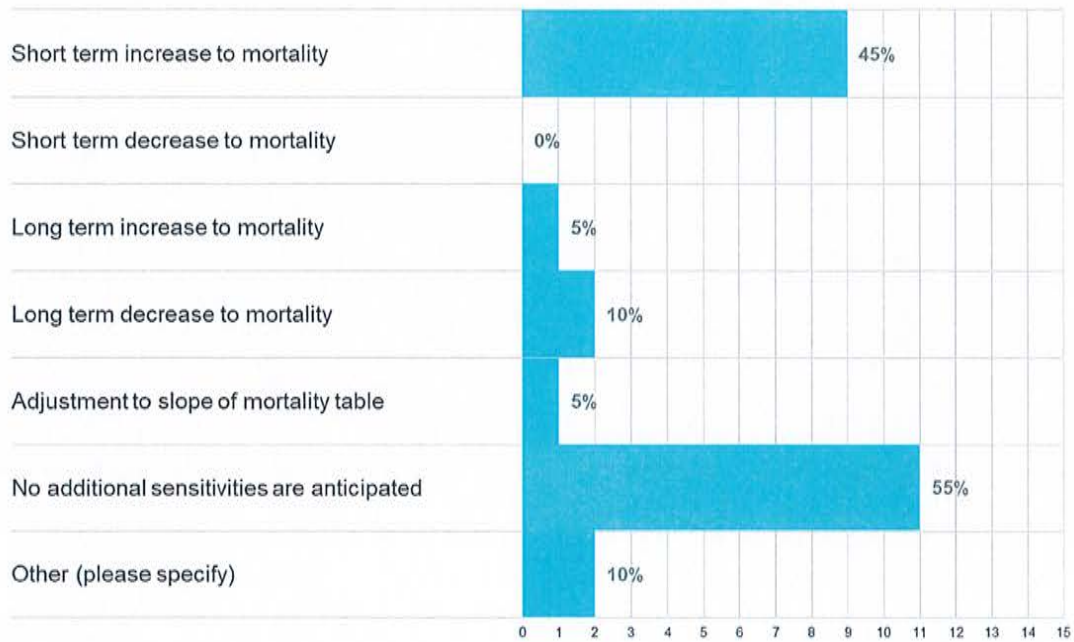


Other answers:

- Claim volume is too low.
- Lower claim notification rate.
- We have suspended use of face-to-face assessments so approval rates have been a bit higher.
- Incidence was down in April-May, normal in June-July. August seems to be trending lower.
- Not studied yet.
- None observed.

LIABILITY SENSITIVITIES

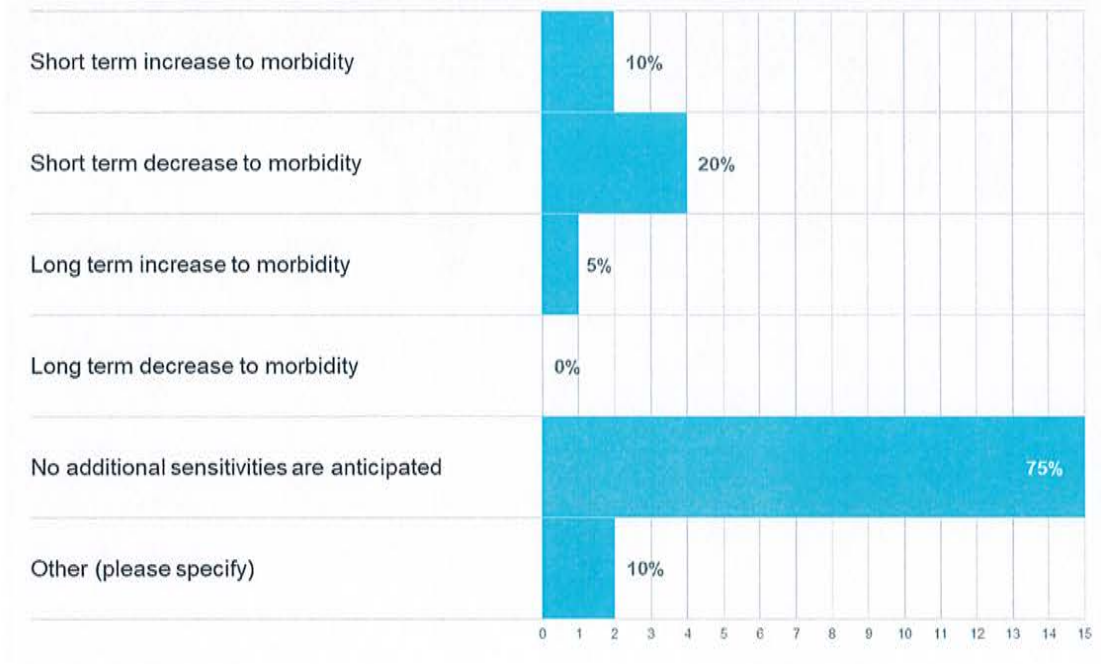
As part of year-end 2020 reserve testing, what additional mortality sensitivities might you include as a result of COVID-19? (Select multiple responses if consistent with your company's plans.)



Other answers:

- We do not currently do any mortality sensitivities due to modeling issues. With changes in software, we may do sensitivities this year, but that is not a direct result of COVID-19.
- Combinations - increase followed by decrease.

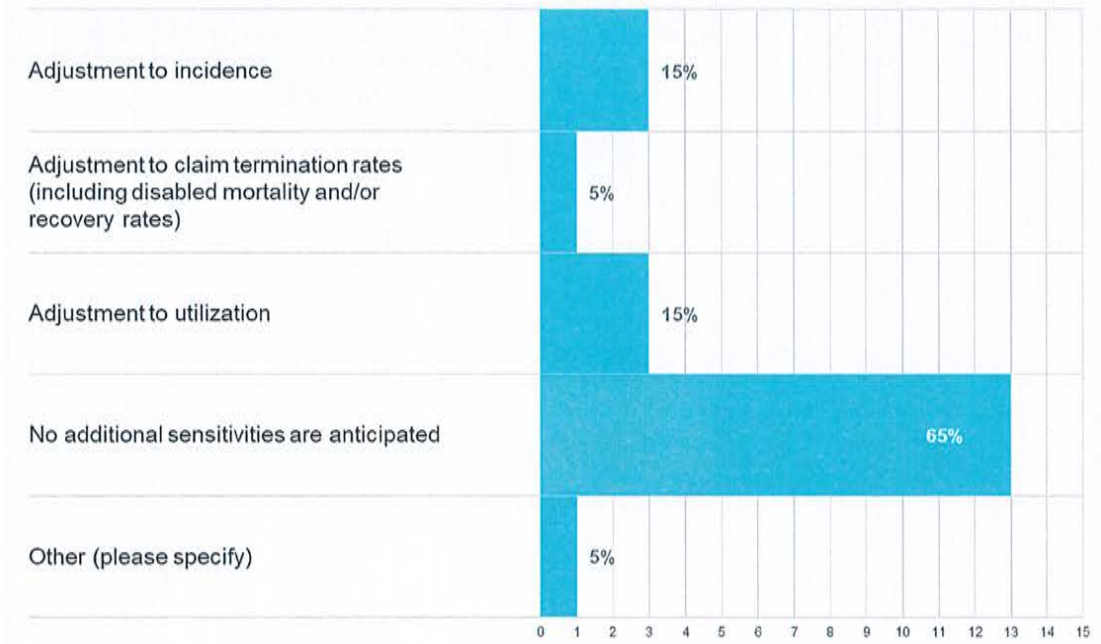
As part of year-end 2020 reserve testing, what additional morbidity sensitivities might you include as a result of COVID-19? (Select multiple responses if consistent with your company’s plans.)



Other answers:

- May test catch-up in years 2/3 to revert to long-term average.
- Combinations - short-term decrease followed by pent-up demand release.

As part of year-end 2020 reserve testing, how would you plan to model additional morbidity sensitivities as a result of COVID-19? (Select multiple responses if consistent with your company's plans.)

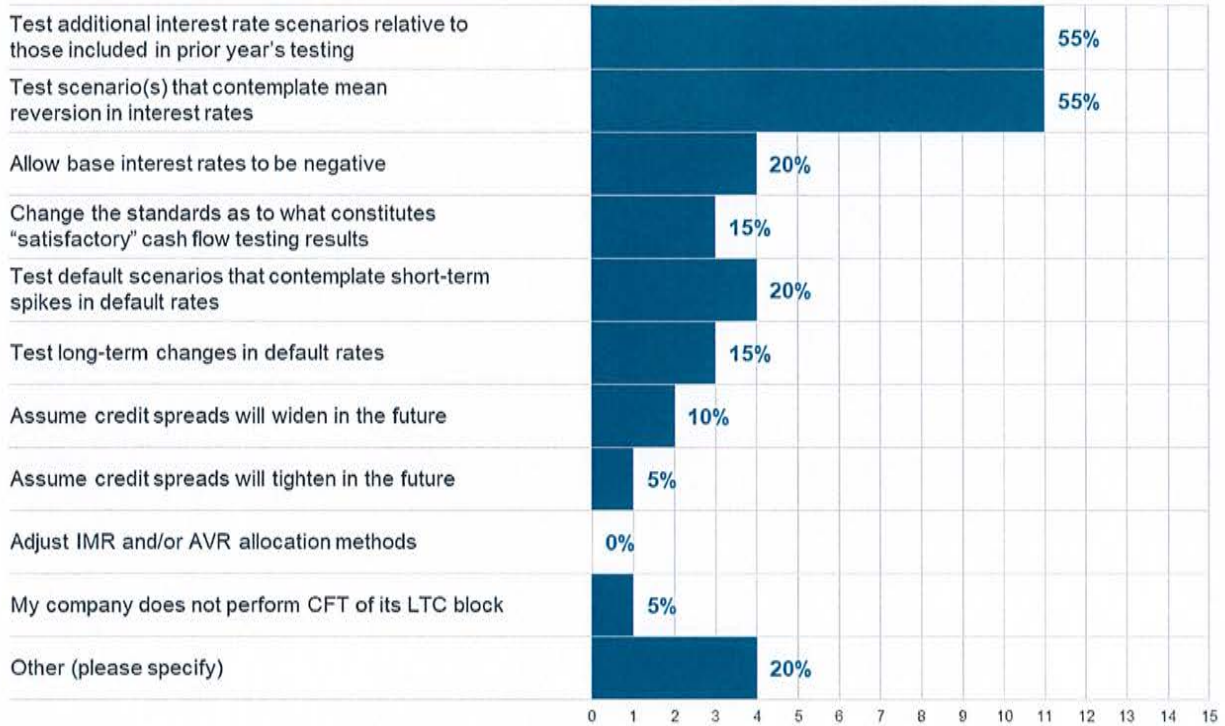


Other answers:

- We use a total claim cost model so will adjust the full claim cost.

ASSET RELATED SENSITIVITIES

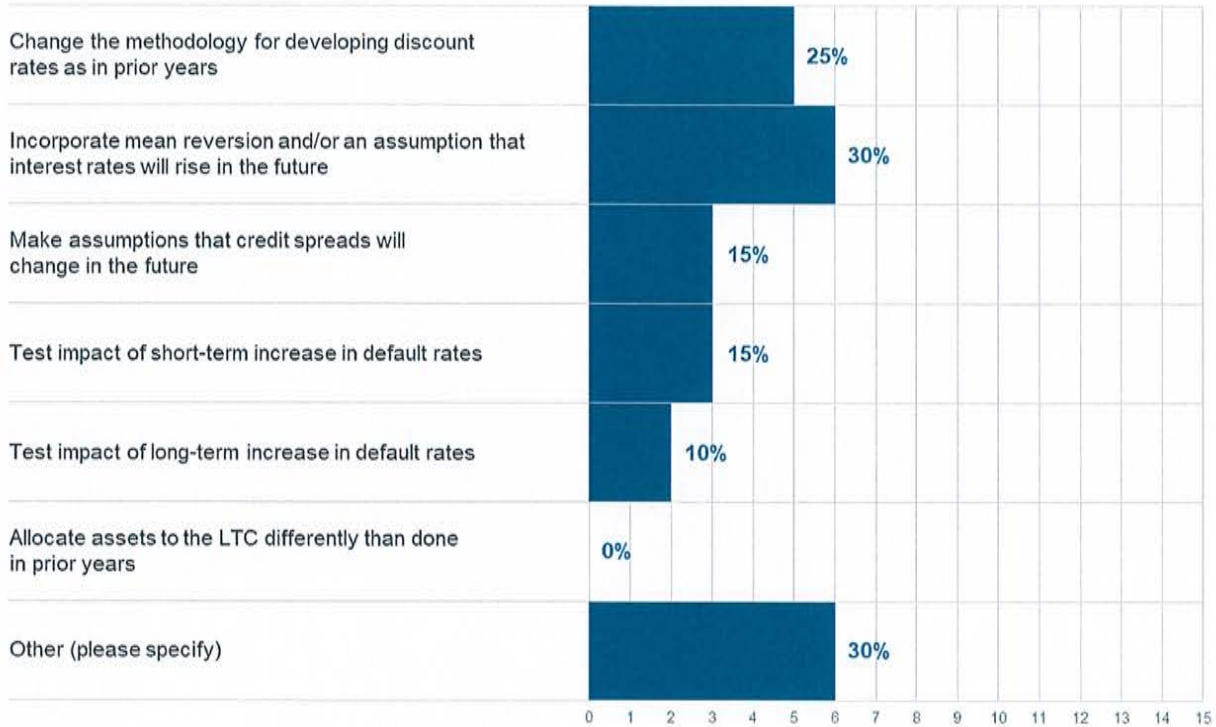
With respect to Cash Flow Testing (CFT) at year-end 2020, what does your company plan to do? (Select all that apply.)



Other answers:

- We don't perform CFT.
- The last 3 boxes checked (Test long-term changes in default rates; Assume credit spreads will widen in the future; Assume credit spreads will tighten in future) are under consideration.
- I'm not sure at this point.
- Still so early so we have not finalized plans.

With respect to Gross Premium Reserve testing at year-end 2020, what does your company plan to do? (Select all that apply.)



Other answers:

- No plans to change GPR approach.
- We may choose to allocate assets differently between PGAAP and HGAAP to ensure better cash flow matching.
- All checked except credit spreads are under consideration.
- Same approach as prior years.
- We update assumptions annually at Q2 so the impacts from changes to investment assumptions occurred then.
- None of these.

Appendix: Survey Questions

1. Name

2. Company

3. Please select the response that best describes your company's position regarding the impact of COVID-19 on LTC.

- We believe the impacts could be significant in both the short-term and long-term
- We believe the short-term impacts could be significant but do not expect the long-term impacts to be significant
- We believe the long-term impacts could be significant but do not expect the short-term impacts to be significant
- We do not believe either the short-term or long-term impacts will be significant
- We believe the short-term impacts will be significant but are not sure about the long-term impacts
- We are unsure of both the short-term and long-term impacts

4. Has your claim administration been impacted by COVID-19? (select the response that best describes your company's experience)

- Yes, processing of claims has been slower
- Yes, processing of claims has been faster
- No, no impact
- Other (please specify)

5. How long have you extended the grace period for premium collection during COVID-19? (select multiple responses if consistent with your company's plans)

- Extended as required by Departments of Insurance
- Less than 3 months
- 3 to 6 months
- 7 or more months

6. Has COVID-19 had an impact on rate increase efforts? (select multiple responses if consistent with your company's experience)

- Rate review periods are longer
- Rate review periods are shorter
- Larger rate increases are being approved
- Smaller rate increases are being approved
- Restrictions are being placed on implementation (e.g., delaying during pandemic)
- No impact on rate increase filings

7. In the emerging LTC **mortality** experience since the onset of COVID-19, what have you observed? (select the response that best describes your company's experience)

- Mortality has been noticeably higher (more than 5% impact)
- Mortality has been noticeably lower (more than 5% impact)
- Mortality has been slightly higher (less than 5% impact)
- Mortality has been slightly lower (less than 5% impact)
- No observable impact
- Data is not yet available to study impact

8. In the emerging LTC **mortality** experience since the onset of COVID-19, have you observed differences between active and disabled mortality impacts? (select the response that best describes your company's experience)

- Yes, impact on active mortality has been greater than on disabled mortality
- Yes, impact on disabled mortality has been greater than on active mortality
- No, impacts on active and disabled mortality have been similar
- Not sure/haven't studied

9. In the emerging LTC **disabled mortality** experience since the onset of COVID-19, have you observed differences by situs? (select the response that best describes your company's experience)

- Yes, impact has been larger in a facility (nursing home or assisted living facility) setting
- Yes, impact has been larger in a home health care setting
- No, impact has been similar across claim situs
- Not sure/haven't studied

10. In the emerging LTC **voluntary lapse** experience since the onset of COVID-19, what have you observed? (select the response that best describes your company's experience)

- Voluntary lapse has been noticeably higher (more than 25 basis point impact)
- Voluntary lapse has been noticeably lower (more than 25 basis point impact)
- Voluntary lapse has been slightly higher (less than 25 basis point impact)
- Voluntary lapse has been slightly lower (less than 25 basis point impact)
- No observable impact
- Data is not yet available to study impact

11. In the emerging LTC **claim incidence** experience since the onset of COVID-19, what have you observed? (select the response that best describes your company's experience)

- Claim incidence has been noticeably higher (more than 5% impact)
- Claim incidence has been noticeably lower (more than 5% impact)
- Claim incidence has been slightly higher (less than 5% impact)
- Claim incidence has been slightly lower (less than 5% impact)
- No observable impact
- Data is not yet available to study impact

12. In the emerging LTC **claim utilization** experience since the onset of COVID-19, what have you observed? (select the response that best describes your company's experience)

- Claim utilization has been noticeably higher (more than 5% impact)
- Claim utilization has been noticeably lower (more than 5% impact)
- Claim utilization has been slightly higher (less than 5% impact)
- Claim utilization has been slightly lower (less than 5% impact)
- No observable impact
- Data is not yet available to study impact

13. Have you observed any other impacts of COVID-19 on LTC **morbidity**? (select multiple responses if consistent with your company's experience)

- Shift in situs mix of new claims toward home health care setting
- Shift in situs mix of existing claims toward home health care setting
- Decreased "days" utilization of home health care services
- Processing delays for notification of new claims
- Other (please specify)

14. Have you experienced any challenges related to new business sales of standalone LTC policies during the COVID-19 pandemic? (select multiple responses if consistent with your company's experience)

- Underwriting difficulty due to social distancing
- Age or benefit restrictions imposed on new policy issues
- Lack of motivated buyers
- My company no longer issued standalone LTC policies prior to the COVID-19 pandemic
- Other (please specify)

15. As part of year-end 2020 reserve testing, what additional **mortality** sensitivities might you include as a result of COVID-19? (select multiple responses if consistent with your company's plans)

- Short term increase to mortality
- Short term decrease to mortality
- Long term increase to mortality
- Long term decrease to mortality
- Adjustment to slope of mortality table
- No additional sensitivities are anticipated
- Other (please specify)

16. As part of year-end 2020 reserve testing, what additional **morbidity** sensitivities might you include as a result of COVID-19? (select multiple responses if consistent with your company's plans)

- Short term increase to morbidity
- Short term decrease to morbidity
- Long term increase to morbidity
- Long term decrease to morbidity
- No additional sensitivities are anticipated
- Other (please specify)

17. As part of year-end 2020 reserve testing, how would you plan to model additional **morbidity** sensitivities as a result of COVID-19? (select multiple responses if consistent with your company's plans)

- Adjustment to incidence
- Adjustment to claim termination rates (including disabled mortality and/or recovery rates)
- Adjustment to utilization
- No additional sensitivities are anticipated
- Other (please specify)

18. With respect to Cash Flow Testing (CFT) at year-end 2020, does your company plan to (select all that apply):

- Test additional interest rate scenarios relative to those included in prior years' testing
- Test scenario(s) that contemplate mean reversion in interest rates
- Allow base interest rates to be negative
- Change the standards as to what constitutes "satisfactory" cash flow testing results
- Test default scenarios that contemplate short-term spikes in default rates
- Test long-term changes in default rates.
- Assume credit spreads will widen in the future
- Assume credit spreads will tighten in the future
- Adjust IMR and/or AVR allocation methods.
- My company does not perform CFT of its LTC block
- Other (please specify)

19. With respect to Gross Premium Reserve testing at year-end 2020, does your company plan to (select all that apply):

- Change the methodology for developing discount rates as in prior years
- Incorporate mean reversion and/or an assumption that interest rates will rise in the future
- Make assumptions that credit spreads will change in the future
- Test impact of short-term increase in default rates
- Test impact of long-term increase in default rates
- Allocate assets to LTC differently than done in prior years
- Other (please specify)



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