LifeStage Protection Product

Final Report

Prepared for
Minnesota Department of Human Services
Own Your Future Initiative

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Table of Contents

Executive Summary

Currently, Minnesotans lack affordable options that will help them pay for the long-term care that many of them will need in the future. Based on several years of study and analysis, it appears that the LifeStage Protection concept may represent an opportunity to help address that gap.

Background

As we look out to 2030 and beyond, half of all Minnesota seniors, at some point, will need enough long-term care help that they will require paid care. Unfortunately, research shows that most will not have planned or put aside the funds to pay for that eventuality. At the same time that care needs for seniors will be increasing, the ways to pay for it will be decreasing. And the impact will be felt most by those in the middle class who have income and assets too high to qualify for Medicaid, but too low to self-fund their care. Private long-term care insurance (LTCI), once thought to be the answer, has been in a downward spiral of late, as products have proven to be too expensive and too risky for both consumers and insurance companies. Many insurance companies have increased premiums significantly, have exited the market or both. As a result, products that are still available are not affordable for middle-income Minnesotans.

The State Role

The Minnesota Department of Human Services through the Own Your Future (OYF) initiative, has embarked on a multi-year effort to analyze the problem and recommend solutions. Their goal has been to encourage affordable long-term care solutions for households with incomes between $50,000 and $125,000. The state's approach has been to encourage private market solutions that are affordably priced, actuarially sound, appealing to consumers and acceptable from a risk and market perspective to insurance companies.

LifeStage Protection

LifeStage protection is one such solution. It combines term life insurance protection during a person's working years when they need that protection most, with long-term care protection in retirement when that protection will be more important. As currently contemplated, LifeStage has three levels of lifetime coverage, $100,000; $200,000, and $300,000. When a person applies, they choose the coverage level they want. During working years, that will be the amount of their term life insurance coverage. When they reach retirement age, their life insurance benefit will end and their long-term care coverage, in that same amount, and for that same premium, will begin.

LifeStage Premiums

Premiums for LifeStage were designed to be more affordable for middle-income families than other options that combine life insurance and long-term care coverage. For a $100,000 LifeStage policy the premiums are less than $50 per month for a 40-year old, and about $60 per month for a 45-year old.

LifeStage Product Monthly Premiums - $135/day to Maximum Benefit $100K		
Issue Age	Male	Female
40	$49	$45
45	$63	$60
50	$79	$80
55	$97	$106

Figure 1

LifeStage compared to Term Life and Long-term Care Insurance

LifeStage premiums compare well to both term life and long-term care insurance policies with the same coverage levels. At age 40, LifeStage will provide males long-term care protection in retirement for only about $10 per month more than they would pay for just a term life insurance policy of comparable value. (Figure 2) Similarly, females will get life insurance protection during their working years for just a few dollars more than they would pay for a comparable long-term care insurance policy.

Difference LifeStage vs. Life Insurance Maximum Benefit $100K			Difference LifeStage vs. Long-term care Insurance Maximum Benefit $100K		
Issue Age	Male	Female	Issue Age	Male	Female
40	$9	$10	40	$21	$8
45	$11	$19	45	$26	$11
50	$12	$31	50	$29	$15

Figure 2

By purchasing LifeStage during working ages, consumers can save about 50% in monthly premium costs compared to waiting and buying comparable term life and long-term care policies separately.

Target Audience

The primary target market for LifeStage are adults age 35-55 years, with household incomes of between $50,000 and $125,000 who are seeking life insurance protection during their working years, but also want some long-term care coverage to help protect them in their retirement. Importantly, the marketing target defines primary potential users of LifeStage but does not limit sales to Minnesotans outside of that target.

LifeStage is predicated on the idea that some long-term care protection is better than none. This principle is based on the finding that approximately 85% of those who will have a long-term care need are projected to spend less than $250,000 on that need, over the course of their lifetimes and that the average long-term care insurance claim today, according to the Society of Actuaries, is only approximately $165,000.

Employer market opportunity

LifeStage is appropriate for individual product sales through agents and brokers but has even greater potential as a group product. There are several reasons for this:

- LifeStage includes a term life insurance component, a product nearly all employers and employees are familiar with, as part of their employee benefits.
- The LifeStage design is intuitive enough so that it is easily understandable to consumers in an on-line environment where most group benefit decisions are made.
- The premiums are affordable enough that they are within consumer expectations for employee benefits.
- The group market for long-term care insurance is underserved.
- In recent research conducted by the Society of Actuaries, consumers favored employers as their first choice of where to obtain LifeStage*.

Offering LifeStage via the employer group marketplace also provides the potential for employers to contribute to the premiums, as they often do for term life insurance. In addition, employers can play an important role in educating employees and their families about the need to plan for long-term care needs in the future.

Testing consumer appeal: two complementary efforts

Minnesota's Own Your Future initiative received funding to conduct qualitative consumer research on two products, one of which was LifeStage. In addition, LifeStage was chosen as one of two products that were part of a major nationwide research project conducted by the Society of Actuaries (SOA) Long-term Care Think Tank. Results from both research projects indicated strong interest in the LifeStage concept among target consumers. In Minnesota, approximately 90% of 37 focus group participants rated the LifeStage product concept as either an A or B. In the SOA research 49 percent of respondents indicated an intent to purchase LifeStage and that translated to a two-year trial rate of 21 percent.

Economic Modeling Analyses

Economic modeling was also part of the SOA think tank study and results of that analysis indicate that Medicaid savings for those who purchase LifeStage, could reach more than 40 percent on both a state and federal basis over a 50-year time horizon*.

In addition, a Minnesota-specific modeling effort was conducted by the SHADAC organization at the University of Minnesota. However, because of limited funding and staff time, the SHADAC analysis of the LifeStage product did not include potential Medicaid savings that might accrue if this product were available to individuals turning 65 after 2030. Further refinements of the model to address this issue are being planned.

Regulatory Pathway

Because LifeStage is a “new concept” it has not been contemplated in the regulatory environment that historically has governed long-term care insurance. However, with the encouragement of the Minnesota Department of Commerce, the Minnesota Insurance and Financial Services Council (MIFSC), the National Association of Insurance (NAIC) and the Interstate Compact Commission (ICC), there appear to be pathways available to overcome potential regulatory hurdles. These pathways involve identifying regulatory issues that might inhibit LifeStage implementation on a state level and proposing legislative or regulatory changes to address them.

Carrier/Stakeholder Exposure

The Minnesota OYF initiative will continue to meet with long-term care and life insurance carriers to share information and explore opportunities for carriers to develop and market LifeStage as a viable long-term care protection option for Minnesota residents.

OYF will also work to identify other states and public entities that may be interested in the LifeStage concept as a potential long-term care funding solution for their middle-income populations. Particular attention will be given to offering LifeStage as part of the employee benefits package in states and other public organizations.

[*] Long-Term Care and the Middle Market- Sizing the Opportunity for New Ways to Finance Long-Term Care, Society of Actuaries, July 2018 https://www.soa.org/research-reports/2018/ltc-middle-market/

LifeStage Product Report

Background

Currently, Minnesotans lack affordable options that will help them pay for the long-term care (LTC) that many of them will need in the future. Based on several years of study and analysis, it appears that the LifeStage Protection concept represents an opportunity to help address that gap.

A. Minnesota's approach to encourage middle class solutions – Own Your Future

Own Your Future (OYF) began as a joint federal/state effort to encourage and help citizens plan for their long-term care (LTC) including how to pay for it. Between 2005 and 2009, 26 states sponsored Own Your Future campaigns to educate individuals about their risks of needing LTC and encourage them to plan. While Minnesota was one of the last states to undertake this effort, it is one of only a handful of states to continue and expand the initiative.

Minnesota launched the public awareness component of OYF in October 2012 with financial assistance from the federal government. The key element of this campaign was a letter sent to one million Minnesota households, ages 40 to 65, urging them to create a plan for their long-term care.

Over the past several years, Minnesota added to the program with the goal of increasing the number of Minnesotans able to find and use private resources to help pay for their LTC. It was felt that if more affordable and suitable options were available, more households could and would use these products to help offset their LTC costs. The three components of Minnesota's initiative came to include:

- Implementation of an ***ongoing*** public awareness campaign throughout the state.
- Efforts to create more affordable and suitable LTC options for Minnesota's middle-income households.
- Evaluation of possible changes to Medical Assistance (MA) to better align with and encourage private payment for long-term care.

B. The rationale for Minnesota's approach to LTC funding

Minnesota, like the rest of the country and most of the world, is experiencing a profound aging of its population. Because of advances in public health and medical care, greater numbers of individuals are surviving to older ages. This permanent shift in the age of the Minnesota population has demographic and economic implications for every sector of society, but especially the health and LTC sectors. Individuals now need to plan for the possibility of a longer life including more years when the chances dramatically increase that they will need LTC.

Minnesota recognized this problem as far back as 2010 when it began Project 2030, a bi-partisan effort to address the emerging issues caused by the demographic shift in Minnesota's population. That effort and the ensuing OYF program has survived and prospered in five different state administrations.

A 2015 study by the Urban Institute, a Washington DC based think tank, and Milliman, one of the nation's pre-eminent actuarial firms, projects that nationwide, over 70 percent of seniors will need LTC at some point in their lives, and about half of those over age 65 will need substantial assistance in the future (Figure 1). Using a definition of care that is familiar to those in the LTC insurance market, this group of people will need help with two or more activities of daily living (also referred to as "ADLs") or will experience significant cognitive impairment. This is the level of care that typically triggers paid care under LTC insurance policies, and it represents a significant level of disability.

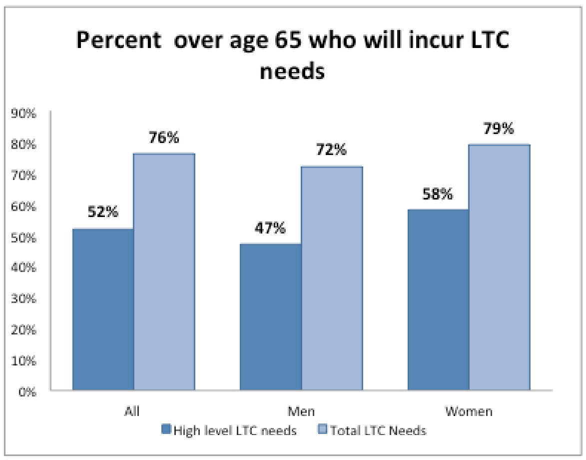

Figure 1

Source: Favreault, Melissa and Feder, Judith, July 2015, "Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief," U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation.

In Minnesota, an estimated 55 percent of those over 85 currently have disabilities that require LTC. The number of Minnesotans age 85+ will triple between 2010 and 2050, increasing from 85,000 in 2010 to a projected 365,000 in 2050. The large baby boom generation, born between 1946 and 1964, will usher in this permanent shift in the age of our population, but younger generations will live longer as well. The Millennial generation, born between 1980 and 1995, is even larger than the baby boom generation and will be middle-aged when their parents (the baby boomers) need long-term care. The economic pressures on these families will include providing for the long-term care needs of their older relatives as well as planning for their own retirement.

Not only will we have more persons in need of long-term care, we will also have significant numbers of Minnesotans who have not prepared for the longer lives they will have. Recent surveys of individuals at the Minnesota State Fair found that nearly one-fourth of respondents did not know how they were going to pay for long-term care costs *(2018 Minnesota State Fair* *survey on retirement and long-term care).* Many individuals are not aware of the high risk they face for long-term care and the need to include this factor in their overall retirement planning.

Traditionally, family members have provided the vast majority of long-term care needed by older relatives. About 90 percent of care for Minnesota's elderly is provided by family members. However, with the size of the average family declining and families becoming more geographically dispersed, fewer family members will be available to provide care to their older relatives in the future. As a result, families will increasingly turn to "formal" or paid services to supplement or replace the care they used to provide. Those formal services tend to be very expensive and growing shortages of formal caregivers are being felt across the state.

C. The economic impact of changing demographics

The aging of Minnesota's population will bring about a transformation of the state's economy. A new set of economic rules will apply. According to the Minnesota state demographer, labor force growth will slow as retirements increase and the number of young people decline, meaning fewer young people entering the workforce. Slower labor force growth translates to slower economic growth. Assuming current levels of taxation, this will reduce growth in government revenue at a time when demand for publicly funded health and long-term care services for older Minnesotans will be escalating. For example, Medical Assistance (MA) expenditures for the elderly, which include basic health and LTC, are projected to increase by 8.5 percent per year during the 2010s and 9 percent per year during the 2020s. Education and other public services will compete with growing long-term care expenditures within a smaller pool of state revenues in the future. If health care costs continue to increase, state spending on other services will stagnate, making the state's financial situation extremely difficult if not unsustainable.

One way to mitigate those effects is to have more viable private market options to help finance growing long-term care expenditures. By increasing the use of private long-term care financing options, Minnesota can potentially reduce the share of public expenditures being spent on long-term care and hence reduce some of the fiscal pressure of long-term care expenditures on the state budget.

However, to increase the use of private resources for long-term care, new insurance and financial products need to be created that will be more understandable, more affordable, more trusted by consumers and more financially sustainable for carriers.

D. The current state of long-term care financing

The private long-term care insurance (LTCi) industry has been going through a period of turbulence over the past decade. The prolonged low interest rate environment, longer duration of claims than anticipated, lower than projected policy lapses and a number of other factors have caused the industry to suffer financially. The industry has seen dramatic across-the-board premium hikes on both prospective and retrospective business; tightened underwriting practices; and a reduction in consumer demand. That said, carriers in Minnesota have worked with regulators to minimize the impact on consumers and to reflect their new-found knowledge of the factors affecting LTC claims to pave the way for more flexible new product offerings like LifeStage.

On the supply side, approximately 90 percent of insurance companies nationally that once offered LTCI, no longer do so, to the point where only a relative handful of providers remain in the market today. LTCi has become increasingly limited to a high-end niche product with few or no options for the middle-income market.

In a 2016 article in Benefits Quarterly, John O'Leary, O'Leary Marketing Associates, LLC, along with Linda Chow, FSA, MAAA, senior manager at Ernst and Young, pointed to several key issues with traditional LTCI products that have contributed to the less than optimal success of that product. They include:

- Lack of consumer understanding about the need for long term care and its related costs.
- Products that are too complex for many consumers to understand.
- Lack of affordability, particularly for middle-income individuals.
- Use it or lose it designs, meaning that consumer-paid premiums are forfeited if not used.
- High cost "feature rich" plan designs, which attempt to cover all or nearly all of the potential LTC risk.

E. The Own Your Future Advisory Subgroup

In 2013, a group comprised of members from the OYF advisory panel and several additional external experts began work on the product availability component of the Minnesota OYF initiative. This group had the following charge:

"Make recommendations on insurance, financial, or related products that should be available to middle-income households to help pay for long-term care costs. These recommendations should include ways to remove barriers to the greater use of existing products as well as strategies to encourage new approaches to the financing of long-term care."

The group adopted the following key strategies to guide decision-making:

- Stimulate the LTCi market by identifying and developing better products for middle-income Minnesotans.
- Modify relevant legislation and regulations to allow for different products.
- Identify options for including LTC in Medicare supplemental policies.

- Find easier and safe options to access home equity for LTC.
- Find simpler and safe options for using tax-favored savings for LTC.

They also identified several desirable principles to guide new product development. Products should:

- Be simplified, streamlined and easily understandable.
- Be limited in duration but robust in benefit levels.
- Have premiums that are affordable for middle-income Minnesotans.
- Have strong, understandable consumer protections.
- Offer incentives for individuals to use products that meet specific criteria.

The group used these strategies and principles to identify, analyze and prioritize 15 potential new product initiatives (figure 2 below) that included the development of a new product concept that combined term life and long-term care.

Minnesota's 15 Initial Proposals

Stimulate the LTCI market to offer new products for middle income	Modify laws or regulations to allow changes in products	Modernize Medicare and related products	Improve access to and safety of home equity options	Increase use of tax-favored savings plans
Encourage marketing of starter or transition LTCI plan	Work on state reciprocity for group and hybrid partnership products	Study feasibility of including LTC in Medigap or Advantage plans	Make reforms in MN reverse mortgage laws to improve market and consumer protection	Create new or modify existing HSA provisions to allow use for LTC protection and expenses
Encourage marketing of streamlined basic LTCI plan	Further development of combination term insurance and LTCI for lifetime protection	Consolidate the Medicare nursing facility, home health and hospice benefit	Support new options for accessing home equity for LTC	Modify provisions of tax-deferred savings plans to allow use for LTC protection and expenses
Encourage marketing of high deductible, catastrophic LTCI	Study pros/cons of establishing life settlement trust funds	Support federal Commission recommendations on Medicare changes		
Study how a public LTCI option might work in MN	Study feasibility of new reinsurance options for LTCI market			

Figure 2

From the prioritization, as well as from with conversations with actuaries, consumers and carriers, a strong interest emerged for a product concept that would merge term life insurance with long-term care insurance coverage in a new way.

The LifeStage Protection Product

The LifeStage Concept

The LifeStage Protection product was envisioned as a way to merge less expensive term life insurance with long-term care coverage to provide an affordable combination product that would appeal to middle-income Minnesota consumers. It was designed to provide life insurance protection during prime working years and then change to provide long-term care protection during the consumer's later years. The State of Minnesota has encouraged the concept's development by:

- Undertaking actuarial analyses to determine overall pricing feasibility.
- Undertaking consumer research to explore the concept's appeal to consumers.
- Exploring potential regulatory pathways to enable the product to be filed and marketed.
- Conducting an economic modeling study to gauge impact on the Medicaid program.
- Encouraging carriers to explore market interest and product viability.
- Working with the national organizations including the Society of Actuaries, the National Association of Insurance Commissioners, (NAIC) and the Interstate Compact to facilitate the assessment and implementation of LifeStage

Upfront, the state defined the following three goals for the LifeStage product:

- To provide a more affordable version of a combination product than those currently available in the market.
- To provide a more appealing choice of long-term care protection for working age, middle-income consumers.
- To provide a protection product whose benefits can change as consumer life needs change.

Product description

The LifeStage protection product is designed to provide a ***term life insurance benefit*** during working years (i.e., up to age 65) when consumers need this protection most. Then, for the same premium and for the same level of coverage, the product will change to provide a ***long-term care insurance benefit*** in later years (i.e., from age 65 on), when consumers are more likely to need that protection.

LifeStage will begin as a multi-year term life insurance product. A portion of the premium will be set aside to pre-fund the future long-term care insurance benefit. When the purchaser reaches a pre-determined transition age, (i.e,. age 65) they continue to pay the same monthly premium, but the term life insurance benefit ends, and the long-term care coverage begins.

To keep premiums affordable, built-in inflation is not currently part of the plan design, however we envision that periodic opportunities to increase their benefit level will be made available to consumers.

To address simplicity, the initial LifeStage plan design consists of just three levels of coverage where the life insurance “face value” amount will equal the long-term care “pool of money.” Based on consumer responses from both Minnesota-specific focus groups and the nationwide Society of Actuaries Think Tank survey, the current coverage levels being used to describe the concept are $100,000, $200,000, and $300,000. Those levels provide reasonable death benefits for consumers during working years and coverage for long-term care expenses that will meet the typical needs for many consumers.

While these levels have received positive results in consumer testing, carriers who pursue LifeStage can of course set the benefit levels and premiums at levels consistent with their internal policies and current market and consumer wishes.

LifeStage is designed to streamline the consumer decision-making process by minimizing the number of choices consumers need to make compared to more traditional long-term care insurance. Lastly, it takes advantage of the high levels of awareness and understanding of term life insurance.

Figure 3 below shows the product description that was used for the consumer research conducted by the Society of Actuaries Long-Term Care Think Tank. Changes were made to the final product description, based results from both Minnesota-specific focus groups and in SOA qualitative research results.

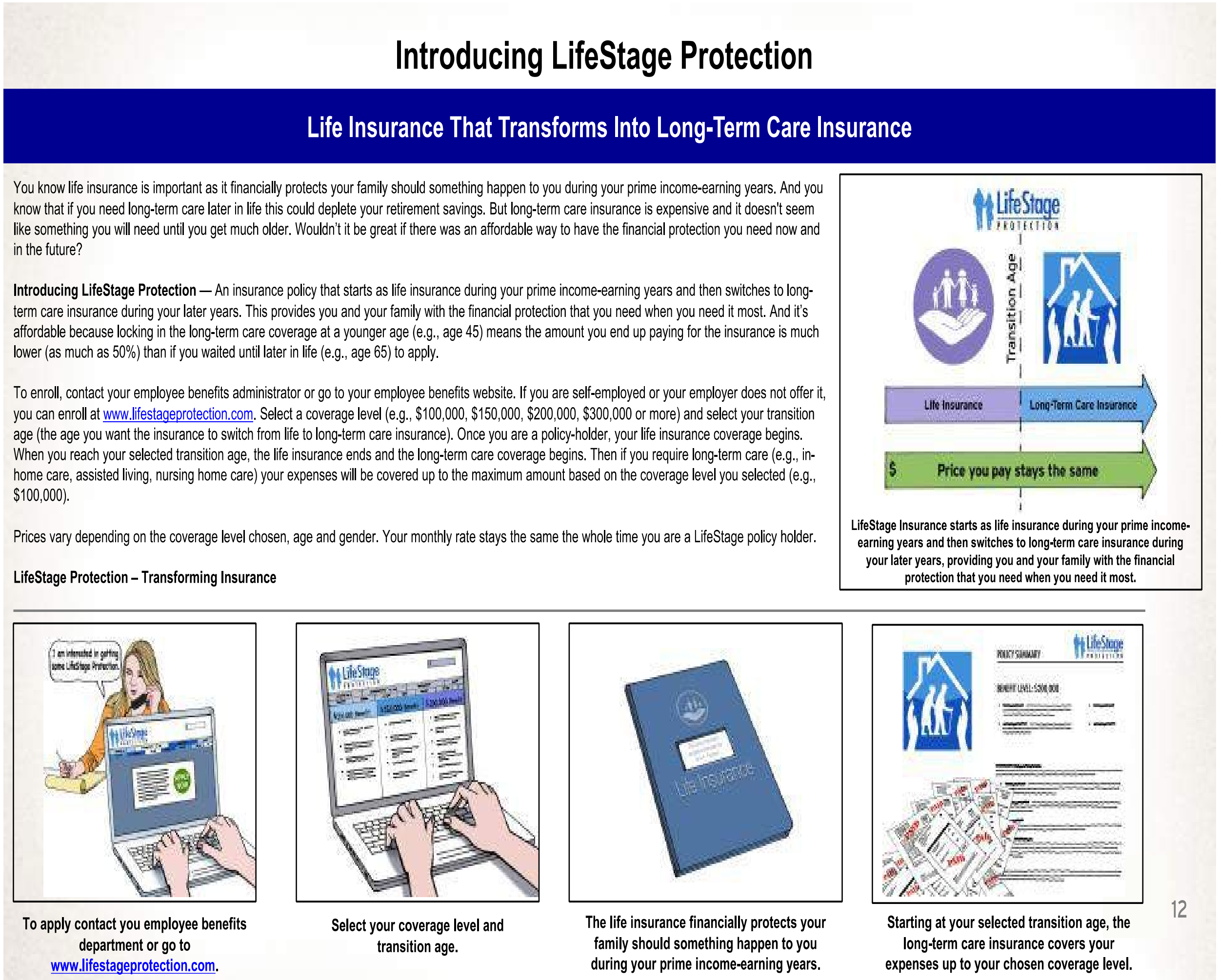

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Figure 3

Target Audiences

Consumer target audience

Consistent with the State of Minnesota OYF objectives, the primary target audience for LifeStage is adults age 35-55 years, with household incomes of between $50,000 and $125,000. These would be consumers who are seeking life insurance protection during their working years, but also want affordable long-term care coverage to help protect them in their retirement years. Because of the term life insurance benefit of the LifeStage product during working years, the target age for LifeStage is significantly younger than the typical purchasers of long-term care insurance. Both Minnesota-specific focus groups and the SOA Think Tank consumer research confirmed the appropriateness of that demographic target. Importantly, while the target audience defines primary potential users of LifeStage it does not limit sales to Minnesotans younger or older than that target.

LifeStage is predicated on the idea that some long-term care protection is better than none. This principle is based on the finding that approximately 85% of those who will have a long-term care need are projected to spend less than $250,000, over the course of their lifetimes, and that the average long-term care insurance claim today, according to the Society of Actuaries, is only approximately $165,000.

Employer market opportunity

LifeStage is appropriate for individual product sales through agents and brokers but has even greater potential as a group product. There are several reasons for this:

- LifeStage includes a term life insurance component, a product nearly all employers and employees are familiar with as part of their employee benefits.
- The LifeStage design is intuitive enough so that it is easily understandable to consumers in an on-line environment where most group benefit decisions are made.
- The premiums are affordable enough that they are within consumer expectations for employee benefits.
- The group market for long-term care insurance is underserved.
- In recent research conducted by the Society of Actuaries, consumers favored employers as their first choice of where to obtain LifeStage.

Offering LifeStage via the employer group marketplace also provides the potential for employers to contribute to the premiums, as they often do for term life insurance. In addition, employers can play an important role in educating employees and their families about the need to plan for needing long-term care in the future.

A. The Market Rationale

The idea of incorporating long-term care benefits into more mainstream products like life insurance and annuity products has become more popular with consumers to the point where combination products are one of the few bright spots in the long-term care landscape. The idea has appeal because it addresses one of the key consumer obstacles to purchase of long-term care insurance- if they don't need long-term care, the premiums they pay for the protection will be forfeited. This is often referred as "use it or lose it." Combination products address this by offering consumers the opportunity to get both life insurance protection and long-term care protection in one product, in effect providing a "two for one" benefit.

While combination products have been gaining in popularity, they have suffered from two problems: 1) products marketed to date have been too expensive for the typical middle-income consumer, the focus of the Minnesota Own Your Future effort; and 2) the product's complexity has added to the already difficult marketing problem for long-term care insurance.

A key hypothesis behind LifeStage is that an affordable, simple product that provides protection against an untimely death during working years, and protection against a long-term care situation during retirement years, will be an appealing solution for consumers. That was confirmed by both the Minnesota focus groups where over 90 percent of participants rated the product as an A or B, and results from SOA Think Tank research where 49 percent of those in the target audience indicated an intent to purchase the product.

There are several factors that reinforce the market rationale for LifeStage:

- Term life insurance, unlike standalone LTC insurance, is a familiar and trusted product to most consumers. Seven in ten workers have life insurance available at their worksite and 80 percent of those with it available, participate in it. Standalone LTC insurance on the other hand has never achieved the broad market penetration that was hoped for (less than 10 percent of the target population by most estimates). Annual sales have dipped for the past 10 years.
- Based on many studies of long-term care purchasing, including buyer/non-buyer studies conducted by Life Plans, a Boston based market research firm, and a 2015 study by RTI international, a Washington DC based think tank, affordability is the number one reason why people DON'T purchase standalone LTCI. The RTI study suggests that consumers do not value standalone LTCI all that highly, and that a $50 per month premium may be the upper limit for many consumers. LifeStage premiums, particularly for age 40 and under are at or below the $50 price point.
- According to the recent Urban Institute micro-economic modeling study referred to earlier, 70 percent of those needing long-term care in the future will spend less than $250,000 on long-term care expenditures over their lifetimes, and 2 years of coverage will work for more than half of those needing long-term care. In addition, the average long-term claim based on the 2016 SOA claim experience study is approximately $165,000. This suggests that a more limited benefit structure like that proposed for LifeStage will provide meaningful assistance for many consumers, particularly those that want to remain in their homes for care.

III. LifeStage Protection Actuarial Study

Approaches and Methods

O'Leary Marketing Associates LLC contracted with UnitedHealth Actuarial Services (UHAS) over a several year period to provide actuarial services to the OYF initiative to determine price feasibility for the LifeStage Protection product concept. The multiple deliverables, including consumer premium estimates and detailed actuarial assumptions can be found in Appendix A. The goal of the actuarial analysis was to determine whether or not the LifeStage product could be affordably priced for consumers using current, sound, actuarial practices and methods.

UHAS developed a unique pricing model to calculate sample premiums for selected ages and benefit levels to help assess the concept's feasibility and provide a basis for consumer testing. The model is based on a "first principles" approach and includes publicly available assumptions for mortality, voluntary lapses, LTC incidence rates, LTC claim's terminations and investment returns.

The specific product approach chosen was to combine together in a single policy, term life insurance coverage and long-term care insurance coverage. For purposes of this analysis the life insurance coverage is provided up to age 65, at which age the life coverage ends and the long-term care coverage begins.

A term life Insurance option was chosen over whole or universal life to keep the premiums more affordable. Underwriting is assumed to be completed at time of issue and is consistent with term life insurance underwriting, with some additional questions to address long-term care risk.

Sample premiums were calculated for both individual and group sales in 5-year increments for ages 40 through 60 (age 65 for LTC only), for males and females, for three separate products:

- LifeStage
- Term life Insurance to age 65 only
- Traditional long-term care Insurance (LTCI)

Sensitivity testing was done for the following alternate scenarios:

- All claims higher than baseline by 10 percent
- LTC claims higher than baseline by 10 percent
- Interest rates of 4 percent versus baseline of 5 percent

See Appendix A for detailed results of these sensitivity analyses.

Key Pricing Assumptions

For this analysis the following key product assumptions were used:

- The product concept consists of a term life insurance product that would be combined with a long-term care rider. The policy is assumed to stay in effect as long as the premium continued to be paid.
- To keep the plan simple, premium and benefit levels were calculated to be the same for both the life insurance and long-term care coverages. The long-term care coverage is priced on a guaranteed renewable basis.
- The long-term care benefit trigger would be the same as existing long-term care policies--2 of 6 Activities of Daily Living (ADLs) or severe cognitive impairment.
- There would be no pre-existing condition exclusions for the long-term care benefit.
- Full term life insurance underwriting would be done before issue of the life insurance policy, but no additional underwriting would be conducted when the life insurance coverage ends, and the long-term care coverage becomes effective.
- To keep premiums affordable, built-in inflation was not included in this pricing exercise. However, to enable coverage to keep up with inflation, a guaranteed option to allow insureds to buy additional coverage in the future will be offered, designed in a way to minimize anti-selection.

A. The following underlying actuarial assumptions were used in premium development:

- Investment rate: 5 percent (4 percent was also sensitivity tested)
- Lapse assumptions: Revised to include most recent long-term care lapse experience including term life during working years.
- Mortality: 100 percent of the 2012 Individual Annuity Mortality Table adjusted for underwriting selection factors per recent American Academy of Actuaries Termination workgroup (see Appendix A for more detail)
- Claim incidence based on 2011 SOA study
- Claim Terminations based 2011 SOA study blended with large company experience for additional conservatism
- Claim utilizations: LTC claims were assumed to use 83 percent of monthly maximum benefit
- Administration Expenses: Consistent with current industry pricing assumptions for underwriting, policy maintenance and incurred claims.
- Marketing Expenses were included analyzed on both an individual and group basis consistent with current pricing practices
- Policy Reserves were calculated using the full preliminary term method, pricing mortality rates, pricing voluntary lapse rates and 3.5 percent interest rate. Given the younger target audience for LifeStage, the prominence of a term life benefit during working years, which provides a different reason for purchase, the

delayed availability of the long-term care benefit, which in effect acts as a vesting period and the relatively modest benefit level which does not automatically increase due to built-in inflation, the reserving approach is thought to be both adequate and conservative.

- Target Profit Levels: Determined by targeting profit ratios (Present Value of lifetime pre-tax profits/Present Value of Lifetime earned premiums) of between 13 percent and 27 percent.

Detail on the derivations and calculations of each of these assumptions can be found in exhibits 1-8 in Appendix A. The exhibits in Appendix A are as follows:

1. Initial 2014 economic feasibility study for Term Life and LTC,07.08.2014
2. First Principles Pricing, 05.05.2016
3. Documentation of Pricing Assumptions and Methods 06.22.2016Attachment A Sensitivity Analysis
4. One cell demonstration model
5. Revised lapse assumptions and rate impact
6. Revised rate confirmations
7. Revenue component Analysis between Life and LTC

LifeStage Premiums

Actuarial analyses were conducted to determine sample pricing for selected ages of 40, 45, 50 and 55 coverage levels of $100,000, $150,000 and $200,000. See Figure 6 below for results of those analyses. These monthly premiums incorporate the lapse, interest and expense assumptions as noted above and we believe, are appropriately conservative for consumer testing and product feasibility purposes.

The results of the pricing work are encouraging in the absolute, in that pricing levels for LifeStage continue to very competitive compared to other combination products and to other long-term care products currently being marketed. That is true even with the conservative lapse assumptions that have been adopted including the pre-65 term life portion of the plan. (see figures 4, 5 and 6 below) Additional analyses comparing the costs of LifeStage to comparable standalone term life and long-term care policies (Figures 7 and 8) are even more interesting.

LifeStage Sample Monthly Premiums for Selected Ages, and Benefit Levels									
	Age 40			Age 45			Age 50		
Benefit Level:	$100,000	$150,000	$200,000	$100,000	$150,000	$200,000	$100,000	$150,000	$200,000
Daily Benefit	$135	$205	$275	$135	$205	$275	$135	$205	$275
Male Rates	$49	$73	$98	$63	$94	$124	$79	$117	$156
Female Rates	$45	$68	$91	$60	$90	$120	$80	$119	$158

Figure 4

Figures 5 and 6 show comparisons of LifeStage premiums for males and females at various ages for the $100,000 benefit to monthly premiums for standalone term life and long-term care insurance plans with comparable benefit levels.

LifeStage Product Monthly Premiums - $135/day to Maximum Benefit $100K		
Issue Age	Male	Female
40	$49	$45
45	$63	$60
50	$79	$80
55	$97	$106

Figure 5

Life Insurance –Term to 65 – Monthly Premiums - Benefit $100K		
Issue Age	Male	Female
40	$40	$35
45	$52	$41
50	$67	$49
55	$76	$57

LTC Insurance – Monthly Premiums - $135/day to Maximum Benefit $100K		
Issue Age	Male	Female
40	$28	$37
45	$37	$49
50	$50	$65
55	$69	$90

Figure 6

Figure 7 shows the differences in monthly premiums by age for the $100,000 benefit level for LifeStage compared to both standalone term life and long-term care policies. A 40-year old man can get LifeStage protection for only $9 per month more than his term life premium. For that he will receive long-term care protection from age 65 on. A 40-year old woman can purchase LifeStage for just $8 per month more than she would pay for standalone long-term care insurance. For that extra premium she will receive term life protection for 25 years. Similar comparisons can be seen for other ages and genders below.

Difference LifeStage vs. Life Insurance Maximum Benefit $100K		
Issue Age	Male	Female
40	$9	$10
45	$11	$19
50	$12	$31

Difference LifeStage vs. Long-term care Insurance Maximum Benefit $100K		
Issue Age	Male	Female
40	$21	$8
45	$26	$11
50	$29	$15

Figure 7

Figure 8 below indicates that LifeStage provides the life Insurance protection (during working years) and long-term care protection (in retirement) for approximately a 30 percent savings over what it would cost to purchase the term life insurance and long-term care products separately.

Premiums for Males- $100,000 level					
	Age 40		Age 45		Age 50
Term Life	$40		$52		$67
LTC	$28		$37		$50
Total	$68		$89		$117
LifeStage revised	$49		$63		$79
Difference	$19		$26		$38
% Savings	28%		30%		32%
Premiums for Females- $100,000					
Term Life	$35		$41		$49
LTC	$37		$49		$65
Total	$72		$90		$114
LifeStage revised	$45		$60		$80
Difference	$27		$30		$34
% Savings	38%		33%		30%

Figure 8

In order to test premium levels for both age 35 and the $300,000 benefit level for the Society of Actuaries Think Tank research, and for the Minnesota focus groups, which were not part of the original actuarial contracts, an actuarial equivalent extrapolation methodology was used. Final estimated premiums that include age 35 and the $300,000 levels are included below in Figure 9.

Extrapolated Premiums for Age 35 and $300 K Benefit level										
	Males					Females				
Lifetime Benefit	**35**	40	45	50	55	**35**	40	45	50	55
$100,000	**$40**	$49	$63	$79	$97	**$37**	$45	$60	$80	$106
$150,000	**$59**	$73	$94	$117	$143	**$54**	$68	$90	$119	$156
$200,000	**$78**	$98	$124	$156	$190	**$71**	$91	$120	$158	$207
$300,000	**$109**	$138	$175	$221	$272	**$99**	$129	$169	$222	$295

Figure 9

Comparative funding analysis

UHAS also conducted a premium analysis to determine how much of the paid in premium by year was allocated to the term life portion of the contract, and how much pre-funded the long-term care portion of the contract. (see exhibit 8 in Appendix A.) The exhibit shows two examples that illustrate the portion of monthly premiums that go toward the term life insurance coverage, and that go to pre-fund the long-term care coverage. The example of a 40-year old male shows that pre-funding the long-term care benefit, ranges from 20 percent at younger ages to close to 90 percent as the person approaches age 65.

For the 55-year old women pre-funding ranges from 50 percent to close to 90 percent the difference being that there are fewer years to pre-fund the LTC benefit.

IV. Testing Consumer Appeal

Two Complementary Efforts

LifeStage was one of several options to emerge from the extensive work of the Own Your Future Advisory Panel. As noted above, LifeStage brings the popularity of the life and LTC combination products to the middle-income market by using a term life insurance policy instead of a whole or universal life product foundation that is currently offered.

While LifeStage was developed and fine-tuned with marketing professionals, policymakers, actuaries, product development experts and insurers, there had never been a "real world" test of the product's consumer viability by understanding how consumers would respond to the product design and product pricing.

To that end, in 2017, the OYF initiative commissioned four (4) focus groups with active Minnesota employees in the target market. This research was conducted by the Office of Measurement Services (OMS) at the University of Minnesota to help evaluate LifeStage as a potential funding solution for Minnesota's middle-income consumers.

At approximately the same time, due to the exposure LifeStage received as an innovative and affordable option for providing long-term care protection to middle-income consumers, it was identified as one of two product concepts to be evaluated as part of a Society of Actuaries (SOA) Think Tank research project. That project was undertaken by innovation consultants Maddock-Douglas, under the auspices of the Society of Actuaries*.

The SOA Long-term Care Think Tank research proved to be a strong complement to the Qualitative focus group research Minnesota undertook. In several cases the quantitative findings found in the SOA Think Tank research corroborated qualitative feedback seen in the Minnesota focus groups.

* **Long-Term Care and the Middle Market- Sizing the Opportunity for New Ways to Finance Long-Term Care, Society of Actuaries, July 2018** https://www.soa.org/research-reports/2018/ltc-middle-market/

Findings from Minnesota Consumer Focus Groups

A qualitative research project was completed by the Office of Measurement Services at the University of Minnesota in the summer and fall of 2017 to help evaluate LifeStage as a potential funding solution for Minnesota's middle-income consumers. That office worked with O'Leary Marketing Consultants LLC, along with ET Consulting, LLC on the design of the questionnaire and the handouts given to the focus group members. The focus group recruitment and moderating was conducted by the Office of Measurement Services (OMS), University of Minnesota.

Four groups were conducted, One each in Alexandria, Minnesota and Dakota County, (West Saint Paul), and two held in Edina Minnesota, with a total of 37 participants across the four groups. Every effort was made to balance the mix of participants with respect to gender, occupation, marital status and other demographic traits. Specifically, participants were recruited who met the following requirements:

- Age 40 to 55
- Household income $50,000 to $125,000
- Employed full-time or part-time
- High school graduate or beyond
- In good health
- Joint or lead decision-maker for household financial decisions

1. **About LifeStage**

   A major driver behind the development of LifeStage Protection is the growing popularity of combination products that are significantly outpacing traditional, single-purpose LTC insurance product sales. But these products to date have been very expensive relative to traditional LTC products and thus, are not affordable for the middle-income market. LifeStage is an attempt to leverage the mindset that motivates the buyer of the combination products but at a lower price point. With LifeStage, this is accomplished by using a term life base product instead of a whole or universal life product.

   As explained to the focus groups, LifeStage is an insurance product that starts as term life insurance during one's prime income-earning years and then switches to LTC insurance protection during one's later years. Thus, it provides the type of financial protection one needs when they need it most. It also provides more affordable LTC coverage because the cost and insurability is "locked in" at a young age. Premiums are generally 50 percent less than they would be for LTC insurance if the individual waited until age 65 to buy it.

Focus Group Explorations

The primary objective of the focus groups was to understand the nature and extent of concern with future LTC needs among this population and specifically how participants felt about LifeStage as a product option to meet those needs. The discussion also explored which features of the product consumers liked best, what concerns they had, and what product changes might increase or decrease their interest in the product. Product interest was explored in general and also specifically based on presentation of age-based premiums and a range of potential "added benefit options" from which participants could choose. These explorations included a combination of group discussion and written scoring exercises which each participant completed individually and then discussed with the group.

Strong Initial Product Interest

Participants read a Concept Statement (see Appendix B for details on this and a summary of scores for each location) and were asked to identify what they liked and disliked about the product and to also identify elements that they found confusing. These were subsequently discussed as a group. They were also asked to give the product a letter grade from A+ to F and to briefly describe the rationale for the grade given. These initial impressions were recorded before premium cost information was provided.

Across all 37 participants, after reading the concept statement approximately 90 percent rated the concept either an A or B. At the individual respondent level, grades ranged from a high of A, A- (10 respondents) to a low of D from 3 respondents, one of which changed to a B+ after pricing was revealed.

While a focus group is directional and is not meant to provide a quantitative measure of sentiments, the researchers were able to count how frequently respondents liked or disliked various aspects of the product components. The following aspects of the product were cited as appealing by just over one-third to close to 90 percent of respondents. They are listed roughly in order of appeal:

- Having financial protection for themselves and their families should the need for LTC arise.
- Being able to obtain coverage through one's employer, yet having it be portable if a job change should occur.
- Locking in the price of that coverage and having it be more affordable than other coverage one might buy on one's own.
- The idea that the coverage starts out as life insurance but then transitions to LTC at a later age when that need emerges as more likely.
- Having in-home care that could help delay or avoid the need for nursing home care.

In their own words, here are a selection of comments that consumers shared:

“I like that it protects my family during my income-earing years.”
“I’d much rather stay in my home than go to a nursing home.”
“I like the full portability and taking it with you.”
“I circled ‘home care’ and ‘costs 50% less,’ ‘sold through your employer, and ‘you can take the coverage with you if you change employers.’”
“I liked that they were putting the two products together into one.”
“Cover for needs as your needs change.”
“…you choose the coverage level and the price staying the same when it changes to LTC is a definite perk.”
“I think it is a good start.”
“It fills a gap in my retirement planning. That is appealing.”

Overall, respondents had more positive responses than negative comments or questions about the product by almost a 2 to 1 ratio. That said, respondents also expressed concerns about the product. The most common concern was a desire for more details about how the product worked, including of course information about pricing. Some respondents wanted the flexibility to select the “transition age” at which the coverage shifts from life insurance to LTC coverage. Others worried about choosing a coverage amount, not knowing whether it would end up being too much or too little.

Illustrative comments include the following:

“I think the whole thing is just taking a bet.”
“I don’t know when I’m going to retire. I don’t know when that’s going to happen. I don’t know when that’s going to need to transition. Having to choose that age seems unrealistic to me.”
“So many things can change. What if I want to change that transition date?”
“I don’t completely understand it…I don’t trust it.”

Respondents also identified questions they would want answered before they would be able to have a more definitive opinion on the product. Questions or concerns that emerged showed that respondents had a good understanding of the basic concept and critical issues inherent in this type of insurance product. Key questions included the following:

- Is a medical exam needed to qualify for the coverage? What about pre-existing conditions?
- If you die after it switches to an LTC plan, do you get any life insurance payout?
- How long do you continue to pay in premiums?
- Is there a waiting period before you can receive benefits?
- What does it cost?

At the end of the product discussion, participants were asked whether LifeStage sounded like something well suited for someone like themselves. Across all groups just under half of all participants agreed that it would be a good fit, which was pretty consistent with the results from the SOA Think Tanks quantitative survey. (Appendix B, Figures 1-4) Reservations pertained to areas of uncertainty most notably with regard to the product's price and other details of how the product works as noted above.

"It might work well for retirement. It would depend on costs."
"Depends on affordability. If I could afford it, I would purchase it."

Product Interest after Premium Presentation

As expected, product interest decreased when premiums were introduced. This has been found consistently in LTC product research for many decades. For some consumers, this is truly a reflection of ability to pay while for others it represents the need for additional education and information to put in perspective the value proposition of having coverage relative to the costs associated with not having coverage. Industry research tells us that few people truly understand the risks and costs they face when it comes to not planning ahead for future LTSS needs.

When looked at across groups, with exception of the Dakota County group, which may be an outlier, when the grades went down, they went down by about 1 letter grade. In many cases this still put the concept rating at B- or better. A few participants scored a higher grade after learning the product price, but many lowered their grades when exposed to price. In part, the lack of understanding about the actual costs they are likely to incur may have affected this, as well as the need for additional information about product details. And in a number of cases it was simply a matter of affordability fit and perceived value given the product premium.

Some participants were concerned with whether the coverage amounts were large enough to pay for LTC needs. The LifeStage product is specifically designed to emphasize in-home care needs and focus on the majority of those whose LTC needs will not be of extended duration or high cost, e.g., among those who will need LTC, over 70 percent of them will experience lifetime care needs costing less than $250,000.

Historically, those who buy LTC coverage have typically preferred a more comprehensive coverage approach. An important challenge for the LifeStage product (and LTC in general) is gaining consumer acceptance of the concept that having some (but adequate) coverage is better than having none. Affordability is the key obstacle to expanding coverage especially for the middle market; therefore, finding ways to make more moderate coverage amounts appealing is an important objective of the LifeStage product exploration.

Specific comments about price reflected a wide range of feelings including some positive, some concerns and some uncertainties.

"It helps defer the costs associated with aging."
"I'm skeptical about any product until I get some data supporting it as good or not so good…."
"I still have a lot of questions."
"The cost is not feasible for me."

Interplay with Existing Life Insurance

Nearly 75 percent of the participants in these groups had term life insurance and, because most of them are currently employed, many had this coverage through their employer. Some also had it on their own (either because they were self-employed or perhaps because they bought coverage in addition to what their employer provided). About one-third of the participants also had a whole life policy. It was not fully explored in the focus groups whether participants were receiving term life through their employer as a fully employer-paid benefit or whether they were paying a premium for the coverage.

As a result, we are not certain whether participants viewed the LifeStage premiums as an additional payment they would make, or as an alternative product configuration to what their employer might offer, with or without an employee contribution. Exploring consumer interest under these alternative offer scenarios could be an important area of further study.

The groups did find that participants were supportive of having employers participate in offering LifeStage, (again consistent with the SOA quantitative survey) in part because they would provide product due diligence, but also because they felt the employee might be able to obtain a tax advantage by offering it at the workplace. For some, the possibility of an employer contribution to the premium was of strong interest.

Possible Product Variations

The final portion of the focus group exploration looked at consumer interest in variations that could can be included within the LifeStage product, for an additional premium cost:

- **Flexible LTC Coverage-** It costs 10 percent more but allows the consumer to access some LTC benefits before the transition age;
- **Flexible Life Coverage-** It costs 15 percent more but provides a small death benefit to beneficiaries (10 percent of the chosen benefit level) even though the product has transitioned to LTC coverage;

- **Partial Return of Premium,** which costs 10 percent more but returns 25 percent of premiums paid, if the individuals passes away after the transition age without ever having used any of the LTC benefit.

These benefits were only included in the final three groups (added after Dakota County group) but in those groups a majority of participants liked and raised their grades based on one or more of these added benefits. Others who didn't like them typically cited the added costs associated with them. (see Appendix B figures 1-4)

Also, whether or not people had other life insurance tended to influence their interest in the inclusion of a death benefit provision even after the LifeStage transition age. Some of the specific comments included the following:

"I don't like the idea of additional costs."
"Being able to use before the transition age…."
"I like the idea of a death benefit."
"I would…have other life insurance so this…wouldn't be needed."
"…[the return of premium]…would need to be much higher....to make the additional cost worthwhile

Conclusions and Next Steps

Overall, the LifeStage product was well-received by the target market tested in these focus groups. The overall concept appears to have appeal with actively employed, middle income adults ages 40 to 55. That said, the prevalence of term insurance in the groups, especially among older participants suggests that we maybe should expand to a younger age by adding age 35 (or younger) to the current 40-55 target to maximize the value of combining with term life during earlier working years.

The group discussion also illustrated the importance of providing believable information on future LTC costs and also on how LifeStage compares in price and value to traditional LTC insurance. It appeared that some consumers believed that even at $300,000, the benefit level might not be adequate to cover what they perceived as their potential long-term care costs.

While it is true that $300,000 won't fund all of the expenses in a nursing home setting where dementia is involved, only about 15 percent of the population will have that kind of long-duration LTC event. A greater emphasis on the use of this benefit to remain at home where the vast majority of consumers want to stay as long as possible, is warranted. That said we have made the decision to move up the highest benefit level from the earlier contemplated $200,000 to $300,000 based on consumer feedback from these groups, as well as from the SOA survey.

Any product that addresses the LTC risk will require raising awareness and education about the risks and costs of needing LTC, the value of having coverage, and the advantage of having some coverage rather than going without any protection. While the combination product approach helps overcome some of the objections to paying for coverage that one might not use, more will need to be done in the product design and marketing of LifeStage to lessen the “use it or lose it” risk, and also to provide more justification for lower benefit levels being adequate for most consumers.

The focus groups also showed the importance of providing details about key product features such as coverage amount choices, and particularly the age at which coverage transitions from life to LTC. This may be one of those consumer flexibility choices where we might want to might want to pre-establish the transition age, i.e., 68 or 70, versus leaving it up to consumers to choose, since consumers (both here and in the SOA survey) expressed concerns about how they would pick the correct transition age for themselves.

Lastly, the role of the employer in offering (and contributing to) the product, also needs to be explored in more detail and clarified for consumers. This could represent a major opportunity to help bring premiums down, gain favorable tax treatment and bring the “imprimatur” of employer sponsorship to LifeStage Protection

Based on the preliminary interest of these focus groups, which were an admittedly small and imperfect sample, we see strong potential for further development and testing of the LifeStage concept which seems to offer a compelling LTC solution for the younger, middle-income market and perhaps an opportunity to reinvigorate viable product offerings for the employer market as well.

Findings from the Society of Actuaries Think Tank Research

Data, charts and analysis in this section of the LifeStage Final Report are taken from a Society of Actuaries Think Tank report with the permission of the Society of Actuaries

Long-Term Care and the Middle Market

Sizing the Opportunity for New Ways to Finance Long-Term Care

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AVAILABLE AT: https://www.soa.org/research-reports/2018/ltc-middle-market/

1. Study Background

The Long-Term Care Think Tank is a collaborative group of experts and thought leaders spanning all corners of the LTC industry. The group's mission is to spark innovation through creative thought and carry forward those ideas to truly impact outcomes that make the financing and delivery of LTC services more efficient for consumers and sustainable for the industry at large.

In October 2015, the LTC Think Tank met in Rosemont, Illinois, for a workshop to brainstorm how the LTC industry could evolve its offerings to meet changing consumer needs in innovative and new ways. Forty-one thinkers generated 86 initial ideas, expanded on favorites, and chose six that represented three new "angles" on LTC innovation—Data Driven Support, Service Evolution and Expansion and Paying for Care.

Two concepts in the Paying for Care category were of particular interest to the LTC Think Tank and were chosen as priorities for further development. They were LifeStage Protection and Retirement Plus. These two concepts were developed with an eye toward making LTC insurance products more practical and affordable for a mainstream audience, as well as allowing consumers to start planning for how to pay for potential future long-term care costs earlier in their lives.

The objective of this LTC Think Tank initiative was to inspire industry leaders to join the Society of Actuaries (SOA) in the quest for changes in long-term care funding and to empower potential sponsors with clear direction on innovation opportunities.

Specific project activities included:

- Conducting qualitative consumer focus groups to gain to clarify the LifeStage product design using consumer approachable language.
- Conducting an extensive quantitative study to evaluate consumer reactions to the product, pricing and plan design.
- Producing a consumer demand analysis to assess the product opportunity for LifeStage on a national basis.
- Developing an actuarial model to project potential forgone tax revenues and Medicaid savings for LifeStage over a 50-year time horizon.
- Refine the two prioritized concepts to focus on the aspects most important to communicate to and test with consumers.

With that in mind, in September 2017, a 20-minute online survey was fielded among 800 consumers, sourced via an online panel.

Respondents were selected to evaluate only one of the two concepts, either LifeStage Protection (N=402) or Retirement Plus.

All consumers were required to meet the following criteria:

- Target Ages 35 to 55, Household Income (HI) between $50,000 and $499,999 split equally into four groups
    - Ages 35 to 45 and HHI $50,000 to less than $125,000**
    - Ages 46 to 55 and HHI $50,000 to less than $125,000**
    - Ages 35 to 45 and HHI $125,000 to less than $500,000
    - Ages 46 to 55 and HHI $125,000 to less than $500,000
- Employed but not in a related industry (e.g., marketing, insurance)
- At least a high school graduate
- Offered benefits (e.g., insurance, retirement) from employer (if not self-employed)
- Have or share the responsibility for household financial decision-making
- Current health status: fair or better
- (**The target audience for Minnesota's OYF initiative)

2. Summary-of Overall Findings

With strong self-reported purchase intent (49 percent) among the 35-55-year-old target, and a high projected adjusted trial (21 percent) the LifeStage has the potential for significant consumer success on a nationwide basis, and therefore on a Minnesota basis as well.

- The study's volume projections indicate that LifeStage has the potential to reach 320,000 policies nationally in five years. By year three, the LifeStage projected volume of 119,000 policies will exceed total traditional long-term care policies sold nationally in 2017, according to LIMRA market research data.
- Projected LifeStage Dollar revenue will reach $350 million by year five.
- Potential Medicaid savings, over a 50-year period, projects to be as high as 42% on both a federal and state basis.
- While some consumers were seeking additional information, two-thirds of those surveyed found the LifeStage concept to be easy to understand and believable.
- About 6 in 10 consumers were likely to see LifeStage as filling a future need.
- Consumers indicated a desire to purchase from their employer as their first choice, (34%) followed closely by on-line purchase from the insurer (33%).
- Based on their product trial device Maddock-Douglas estimates that more than 20 percent of target audience consumers will buy LifeStage in the next two years.

The study also identified several opportunities for improvement in plan design and future marketing approaches:

- Consumers expressed confusion about how to choose the "right" transition age. (This concern was also seen in Minnesota specific focus groups as noted above) Consumers were uncertain how they would go about picking a transition age without knowing ahead of time when they might need long-term care.
- Price is most likely somewhat a barrier to purchase for some respondents as "interest in investigating further" dropped after exposure to price. (Again, this finding was consistent with comments we saw in the Minnesota focus groups.)

Regarding lower interest levels after exposure to pricing, this dynamic is not atypical for any product, but it is exacerbated for long-term care products due to the high consumer price sensitivity for those products. Of note, however, the purchase intent is higher among those who selected a larger benefit level, suggesting that those who recognize the benefits of the products may be willing to pay more to get the coverage they desire.

Other key study findings specific to LifeStage:

- The concept fills a need for consumers today but even more so in the future.
- Being a combination product that transitions as you get older is a "top-liked" feature of LifeStage.

This report represents a summary of LifeStage-specific, and Minnesota-specific analysis coming out of the Society of Actuaries Think Tank report. The full report, including results for the Retirement Plus product, is available at the following SOA research link https://www.soa.org/research-reports/2018/ltc-middle-market/.

3. Research details

Product description

The concept description that was used in the research can be found earlier in this report.Refer to Figure 3, which contains the text presented below. The text describes LifeStage as a product that provides life insurance (something they may need now) that transitions into LTC insurance (something they may need later). The concept description with the text below was presented to survey respondents for initial reactions.

"You know life insurance is important as it financially protects your family should something happen to you during your prime income-earning years. And you know that if you need long-term care later in life this could deplete your retirement savings. But long-term care insurance is expensive, and it doesn't seem like something you will need until you get much older. Wouldn't it be great if there was an affordable way to have the financial protection you need now and in the future?

Introducing LifeStage Protection — An insurance policy that starts as life insurance during your prime income-earning years and then switches to long-term care insurance during your later years. This provides you and your family with the financial protection that you need when you need it most. And it's affordable because locking in the long-term care coverage at a younger age (e.g., age 45) means the amount you end up paying for the insurance is much lower (as much as 50%) than if you waited until later in life (e.g., age 65) to apply.

To enroll, contact your employee benefits administrator or go to your employee benefits website. If you are self-employed or your employer does not offer it, you can enroll at www.lifestageprotection.com. Select a coverage level (e.g., $100,000, $150,000, $200,000, $300,000 or more) and select your transition age (the age you want the insurance to switch from life to long-term care insurance). Once you are a policy-holder, your life insurance coverage begins. When you reach your selected transition age, the life insurance ends and the long-term care coverage begins. Then if you require long-term care (e.g., in-home care, assisted living, nursing home care) your expenses will be covered up to the maximum amount based on the coverage level you selected (e.g., $100,000).

Prices vary depending on the coverage level chosen, age and gender. Your monthly rate stays the same the whole time you are a LifeStage policy holder.

"LifeStage Protection – Transforming Insurance"

Premium Presentation

For LifeStage, the research tested four benefit options: $100,000, $150,000, $200,000 and $300,000. After responding to several initial diagnostic questions, respondents then viewed a monthly premium amount for each of the four benefit levels as determined by self-reported gender and age. For example, the following pricing options were shown to males ages 43 to 47. (Figure 10) Respondents were shown a monthly premium amount for each benefit level and selected the one that would best meet their needs.

	Option A	**Option B**	**Option C**	**Option D**
Lifetime Benefit	$100,000	$150,000	$200,000	$300,000
Monthly Premium	$63	$94	$124	$186

Figure 10

4. **Key long-term care and insurance findings**

The SOA Think Tank study included questions on consumer attitudes and behaviors. A snapshot of some of the most relevant findings follows:

- When asked about their need for long-term care more than half of respondents thought they would need some long-term care, with 61% thinking they would need home care, 58% would need assisted living and 44% would need nursing home care.
- When asked how they would pay for their needed long-term care 35% indicated they would have to pay out-of-pocket for their care; while 41% incorrectly thought their health plans (24%) or Medicare (17%) would pay.
- 63% indicated that having some long-term care coverage was better than not having any coverage.
- 69% indicated that they buy life insurance to protect their families during working years.
- 74% agreed that long-term care insurance would get more expensive if they waited to buy it in the future.

5. **Key reactions to the LifeStage concept**

When asked to give an overall rating 59% of respondents indicated LifeStage was a good or excellent product.

- Importantly, 49% of respondents indicated that they would investigate LifeStage further before exposed to pricing and 38% they would still investigate the product after they were exposed to pricing. (Figure 11)

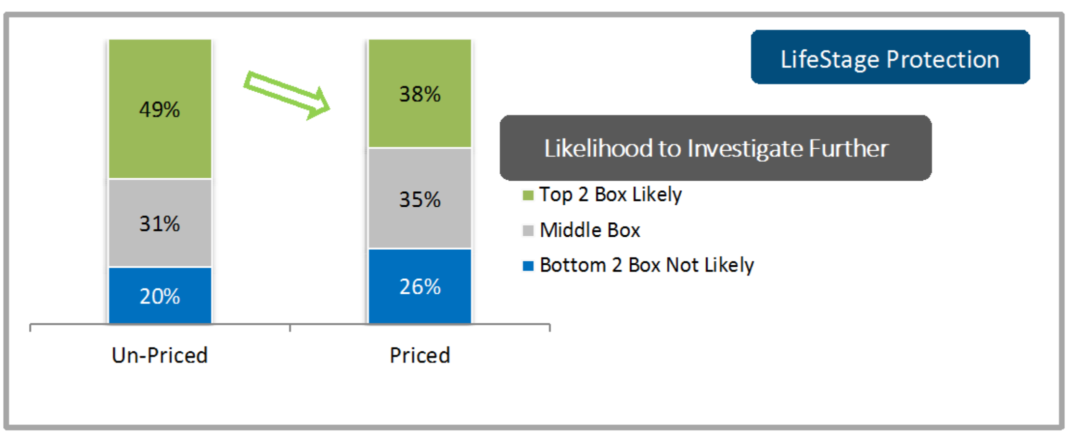

Figure 11

a. When asked about filling a need, 42% of respondents indicated that LifeStage filled a need today; 57% indicated it filled a need tomorrow.
b. When asked about understandability 67% thought LifeStage was very or somewhat easy to understand.
c. Regarding uniqueness and believability, 59% thought LifeStage was totally or somewhat unique, and 63% thought LifeStage was very or somewhat believable.

6. **Consumer reasons for liking LifeStage**

When consumers were asked to explain why they liked LifeStage they stated some of the key reasons in their own words. Many of them reflected what were thought to be the key rationales for the product.

- "Flexibility in changing needs through different life stages (Male 35)
- "I like that the insurance serves two purposes in its lifetime" (Male 39)
- "I like the combination of life insurance transitioning to LTC insurance " (Female 39)
- "Good that it is still useful after I no longer need life insurance" (Female 40)
- "I really like that the insurance starts as life insurance and then at a targeted age, switches to long-term care insurance" (Male 48)
- "It is a good idea, considering how the coverage changes according to need. It is also nice that the amount you pay remains the same for the duration of the policy." (Male 42)
- "It protects my family during my income years if something happens to me, which later also covers my long-term care." (Male 49)
- "I like the security and well-being this product provides" (Male 42)

7. **Consumer transition age**

When asked about what age they would select as a "transition age" from life insurance to long -term care coverage there was no clear consensus on what that age should be. The chart below shows the differences in responses by age. If a single transition age was chosen for all, it would most likely be in the age 66-70 range.

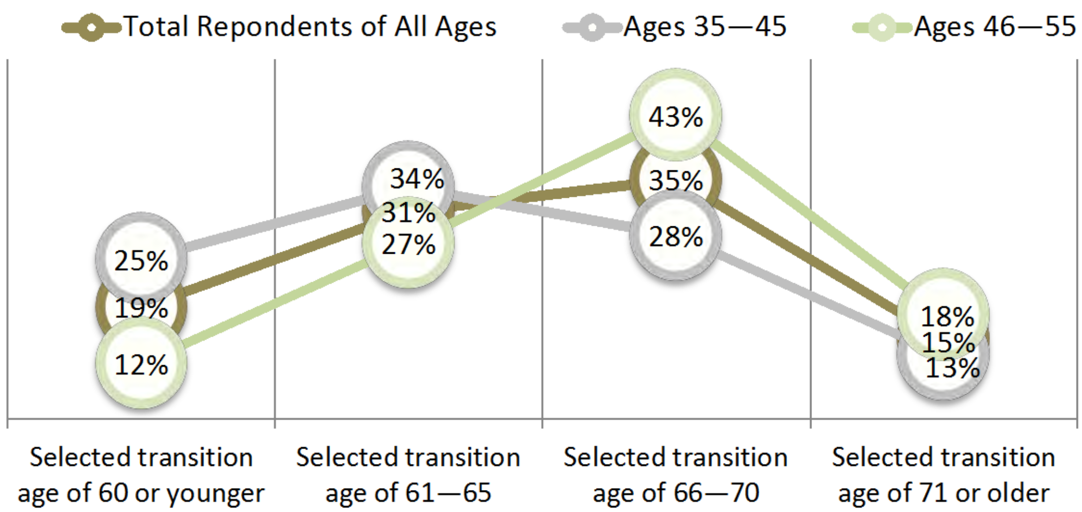

Figure 12

8. **Target Market – 53.2 million**
   The chosen target audience for this study was adults 35-55 years old with incomes of $50,000 to $500,000. That target represents approximately 61,000,000 people in total or approximate 21% of the US adult population age 18 and over. In order to be able to analyze the target audience for LifeStage for Minnesota, the audience was segmented into 4 groups- two with household incomes of $50-$125,000 per year (the Minnesota target for LifeStage) and two with incomes of $125-$500,000 per year.

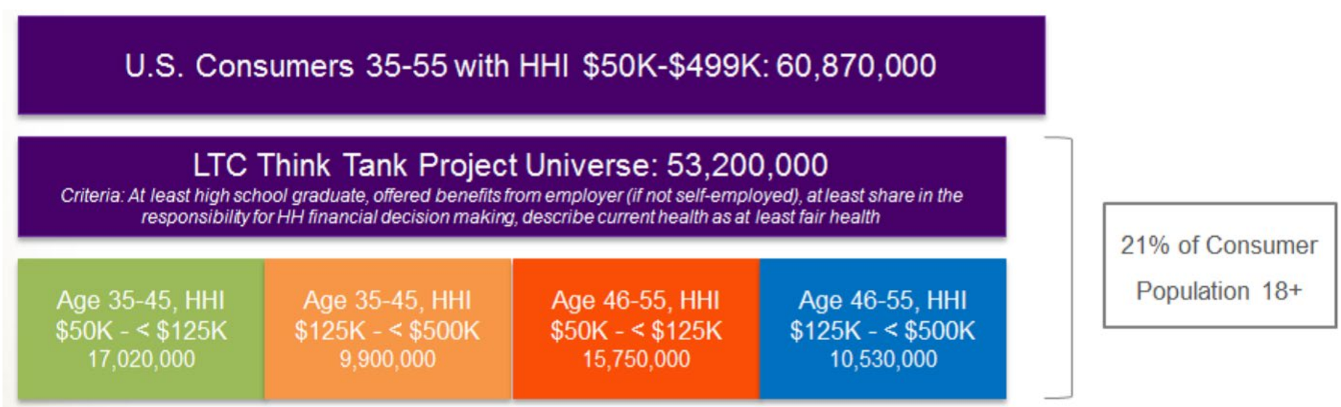

Figure 13

9. LifeStage Projected Trial (next 2 years)

As part of their proprietary forecasting model, the report authors, Maddock-Douglas use the concept of "Adjusted Trial" where they apply an experiential model to discount consumer self-reported purchase intent from the research to account for real world consumer behaviors. The chart below shows the adjusted trial number for the 4 demographic groups identified above. A key finding coming out of this part of the study is that the lower income group ($50-$125K) adjusted trial numbers were equal to, or higher than, the higher income groups, suggesting that for LifeStage the Minnesota target of $50-125K is viable from a product appeal perspective. (Figure 14)

	35-45/ $50K-<$125K (n=103) A	35-45/ $125K-<$500K (n=101) B	46-55/ $50K-<$125K (n=97) C	46-55/ $125K-<$500K (n=101) D
	%	%	%	%
Self-Reported Purchase Intent	52	49	48	46
Adjusted Trial	22	21	20	19

Figure 14

10. Assumptions used to calculate LifeStage forecasts

Volume Projections- The Maddock-Douglas projection model utilizes the following key factors to calculate projected future policy sales for LifeStage in the study. They are:

Project Target Universe- The 53,200,000 members of the target audience.

Distribution Access- Will consumers have access to purchase LifeStage in all potential distribution channels (agents and brokers, employers, direct on-line etc.)? Because the product will be made available through all of those channels the assumption used for LifeStage is 100%. When the product is ready to go to market this could be adjusted based on carrier(s) strength and their assumptions about access.

Consumer Awareness- Will consumers in the target audience be aware and have sufficient knowledge of the product to be able to make a purchase decision? Without knowledge of the marketing resources to be put behind the product, the assumption used for LifeStage is .25% (a quarter of a percent) in the first year, with that number doubling each year in the 5-year forecast. This is a conservative assumption particularly in the employer group segment where awareness by the end of an enrollment period could reach 90% of target employees in a specific employer.

Adjusted Trial- The adjusted trial number used for the all segments of the LifeStage projections is 20.6% as per the earlier discussion on adjusted trial.

Retention- The retention assumption is that approximately 5% of first year product sales will lapse, so carry forward in-force sales re reduced by that amount. That is based on a conservative interpretation of industry norms.

Timing- Because the adjusted trial number is based on the next two years, the assumption is that only 50% of those indicate interest will actually purchase in first year

Calculation- To calculate the projections a relatively simple formula is used:

Target Universe X Distribution Access X Awareness X Adjusted Trial with adjustments made for retention and timing.

11. Lifestage Policy Projections for years 1-5

Figure 15 below shows the 5-year national forecast for LifeStage under the assumptions noted above. The study's volume projections indicate that LifeStage volume has the potential to reach approximately 320,000 policies nationally in five years. By year three, the LifeStage projected volume of 119,000 policies would exceed total traditional long-term care policies sold nationally in 2017. (LIMRA 2017 Report- Long-term care Sales). As noted above carrier driven changes to the assumptions would change these results, however the overall result suggests the potential for success at the national level and presumably for Minnesota as well.

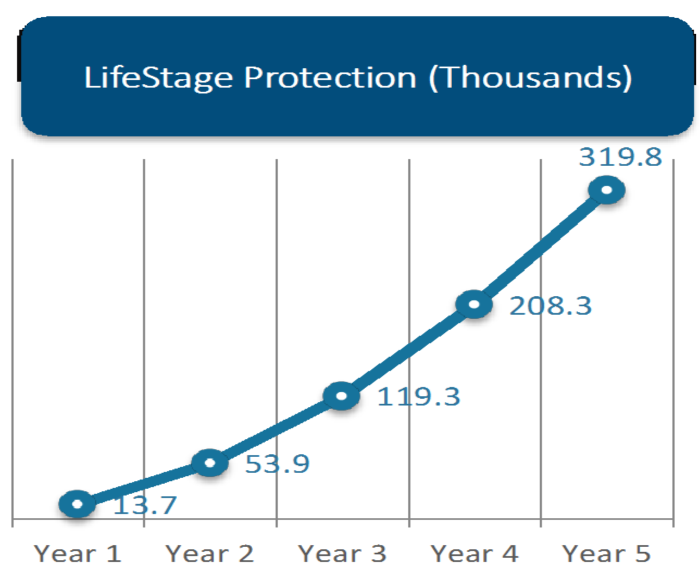

Figure 15

12. LifeStage Premium Dollars Projected for years 1-5

Figure 16 shows that projected LifeStage dollar revenue will reach $350 million by year five. The dollar projections are based on the policy forecast above, along with assumptions about product purchase mix derived from consumer choices about product mix and pricing derived from the research.

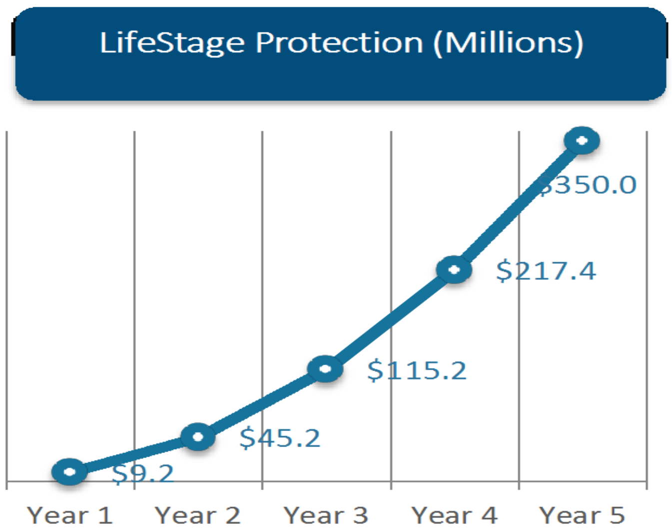

Figure 16

13. Potential LifeStage impact on tax revenues and Medicaid spending

A key element of the SOA Think Tank study was to make an actuarial model that would predict the future potential impact of LifeStage (and Retirement Plus) on foregone federal and state tax revenue and the offsetting savings to future Medicaid spending. The analysis used the regulatory and tax environment in 2017 as well as two more consumer-favorable tax scenarios.

In the current environment, (least favorable scenario) it is assumed that premiums for LifeStage are not eligible for tax deductions. This assumes that LifeStage is considered a life insurance product for tax purposes.

A second more favorable scenario would allow the portion of the LifeStage Protection premium attributable to the LTC insurance to be considered eligible for tax deductions. These calculations accounted for the 2018 caps for maximum LTC insurance premium deductions.

Finally, the preferred scenario would allow for a tax deduction for the entire LifeStage Protection premium up to the 2018 limits for LTC insurance premium deductions. The assumption for all scenarios is that distributions from the product used to cover LTC costs would not be taxable. All projections in this section are based on federal tax laws in place in 2017.

The following table (Figure 17) summarizes the net impact of potential federal Medicaid savings realized by LifeStage, offset by lost federal tax revenue for each scenario in the pilot program. The results suggest that savings could range from 31% to 42% depending on the favorability of future tax scenarios. The 42% savings is reflective of current tax treatment. Savings are specifically for the individuals expected to purchase the protection product.

Importantly, savings that result from LifeStage, even from the less favorable tax scenario are very limited before year 20, and under the more favorable scenarios don't occur at all until years 21 and beyond. That is because the long-term care aspect of LifeStage doesn't take effect until age 65, and most of the potential long-term care claims don't occur until even further out, (age 80 on average) based on the long-term care industry claims data. That said, the present value of Medicaid savings over the 50-year product horizon shows a potential savings for LifeStage.

Medicaid Savings and Lost Tax Revenue ($s)

	LifeStage Protection		
	Less Favorable Tax Treatment	Favorable Treatment	Preferred Treatment
Years 1-10	0.0	21.7	46.3
Years 11-20	-4.4	49.2	78.4
Years 21-30	-155.2	-66.0	-56.2
50 Year PV	-737.3	-590.4	-548.6
% Change	-41.9%	-33.6%	-31.2%

Figure 17

Figure 18 below shows the same LifeStage impact for each of the tax scenarios on a percentage basis.

Medicaid Savings and Lost Tax Revenue ($s)

	LifeStage Protection		
	Less Favorable Tax Treatment	Favorable Treatment	Preferred Treatment
Years 1-10	0.0%	16.5%	35.3%
Years 11-20	-2.3%	25.5%	40.7%
Years 21-30	-55.4%	-23.6%	-20.1%
50 Year PV	-41.9%	-33.6%	-31.2%

Figure 18

14. Evaluation of potential LifeStage product options

In addition to the basic LifeStage product concept, the study tested six possible LifeStage options which were developed coming out of work of the Minnesota specific focus groups as well as comments from various carriers and other stakeholders, to determine what their potential impact on purchase interest. The results are shown in Figure 19 below.

Four of the six options showed positive net impact scores, which means they would likely increase purchase interest somewhat.

The most popular option is a modified version of a “return of premium” if neither the life nor the long-term care portion of the product is used. This option would help address the issue of use it or lose that keeps a lot of consumers from purchasing LTC related insurance products. The “net impact” score of 31% is the result of the difference between those who are more likely to investigate and those who are less likely to investigate it.

Less popular but still having a positive “net impact” score of 23% is an option that would allow some use of the long-term care benefit before the chosen transition date. This may help mitigate some of the confusion around consumers choosing their transition date in advance.

Also having positive net impact scores were the options of retaining a modest “final expenses” life insurance benefit and having a higher total benefit amount ($400,000). Neither having a lower lifetime benefit ($50,000) nor having a built-in inflation option that was consistent with increases in the rate of inflation had positive net impact scores. Unlike the options with positive net impact scores, consumers did not see the value of the last two options, with the costs as presented, increasing their level of interest in purchasing LifeStage.

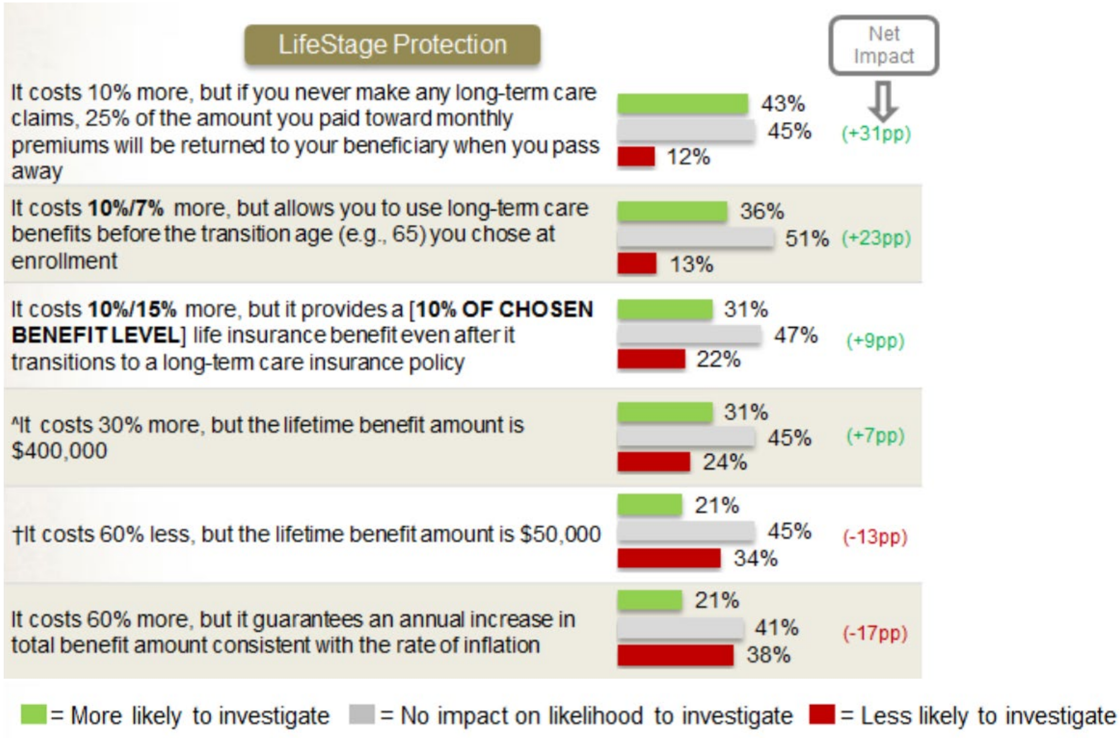
LifeStage Protection
Net Impact
It costs 10% more, but if you never make any long-term care claims, 25% of the amount you paid toward monthly premiums will be returned to your beneficiary when you pass away
43%
45%
12%
(+31pp)
It costs 10%/7% more, but allows you to use long-term care benefits before the transition age (e.g., 65) you chose at enrollment
36%
51%
13%
(+23pp)
It costs 10%/15% more, but it provides a [10% OF CHOSEN BENEFIT LEVEL] life insurance benefit even after it transitions to a long-term care insurance policy
31%
47%
22%
(+9pp)
^It costs 30% more, but the lifetime benefit amount is $400,000
31%
45%
24%
(+7pp)
†It costs 60% less, but the lifetime benefit amount is $50,000
21%
45%
34%
(-13pp)
It costs 60% more, but it guarantees an annual increase in total benefit amount consistent with the rate of inflation
21%
41%
38%
(-17pp)
= More likely to investigate
= No impact on likelihood to investigate
= Less likely to investigate

Figure 19

V. Minnesota Specific Economic Modeling

SHADAC Modeling Project

DHS contracted with State Health Access Data Assistance Center (SHADAC) at the University of Minnesota to create a new Minnesota-specific model to analyze financing options for long term care to determine their cost and their effect on other financing options (Medicare, Medicaid, out-of-pocket expenditures and private insurance).

SHADAC, in collaboration with the Minnesota Department of Human Services, developed a Long-Term Services and Supports (LTSS) projection model to assist the state with projecting the population in Minnesota, their characteristics, their use of LTSS, and state spending on these services into 2020 and 2030.

The LTSS Projection Model has three main outcomes. The first is the projection of elderly Minnesotans who will require LTC in 2020 and 2030. The second and third are the average and total costs to Medicaid to meet this demand.

The Minnesota LTSS Projection Model attempted to estimate the effect of introducing a LifeStage Protection product on future Medicaid state spending. However, because of limited funding and staff time, the SHADAC analysis of the LifeStage product did not include potential Medicaid savings that might accrue if this product were available to individuals turning 65 after 2030. Further refinements of the model to address this issue are being planned.

VI. Go to Market Approach

A. Regulatory Pathway

Because LifeStage is a “new concept” it has not been contemplated in the regulatory environment that historically has governed long-term care insurance. However, with the encouragement of the Minnesota Department of Commerce, the Minnesota Insurance and Financial Services Council (MIFSC), the National Association of Insurance (NAIC) and the Interstate Compact Commission, (ICC) there appear to be pathways available to overcome potential regulatory hurdles. These pathways involve identifying regulatory issues that might inhibit LifeStage implementation on a state level and proposing legislative or regulatory changes to address them.

One such approach would be a coordinated project with the Minnesota Department of Commerce and the Interstate Commerce Commission in which Minnesota would develop approvable filing language and an approval process that could be used for LifeStage-like combination products not only in Minnesota but in other states with an interest in long-term care product innovation.

B. Carrier and stakeholder exposure

LifeStage has been discussed extensively with long-term care insurance carriers that currently are or might be interested in marketing LifeStage-like insurance products in Minnesota as part of due diligence for the product. In addition, the product and the work supporting it have been exposed to various stakeholder groups at conferences including the Minnesota LTSS Summit, the Intercompany Long-term Care Insurance conference (ILTC); the America Society on Aging (ASA); The SOA Healthcare Conference; the SOA Annual Meeting; the Long-Term Care Discussion Group in Washington DC; the NAIC Sub-committee on LTC innovation and the NAIC Actuarial work group on long-term Care. That process has shown positive carrier and stakeholder interest in continuing to pursue the concept but has also raised several implementation questions which are being currently being pursued.

The Minnesota OYF initiative will continue to meet with long-term care and life insurance carriers to share information and explore opportunities for marketing LifeStage as a viable long-term care protection option for Minnesota residents.

OYF will also work to identify other states and entities that may be interested in the LifeStage concept as a potential long-term care funding solution for their middle-income consumers. Particular attention will be given to offering LifeStage as part of the benefits package to states and other public employee organizations

Appendices- LifeStage Actuarial Reports

1 Initial economic feasibility study 2014
2 First principles Pricing Results - 201
3 Documentation of overall Pricing Assum
4 Attachment A- Sensitivity analysis.pd
5 One-Cell Demonstration Model
6 Revised Lapse Assumtions and rate i
7 Revised premium confirmations.pdf
8 Revenue components analysis
9 Detailed Pricing Assumptions and Met

1. Initial 2014 economic feasibility study for Term Life and LTC 2014.07.08
2. First Principles Pricing, 2016 05.05
3. Documentation of Pricing Assumptions and Methods 6/22/2016
4. Attachment A Sensitivity Analysis
5. One cell demonstration model
6. Revised lapse assumptions and rate impact
7. Revised rate confirmations
8. Revenue component Analysis between Life and LTC
9. Detailed Pricing Assumptions and Methods

Guide to Appendix B –
Information from the Four LifeStage Focus Groups

Figure 1 – Alexandria
Figure 2- Edina 1
Figure 3- Edina 2
Figure 4- Dakota

Figure 1-Alexandria focus group ratings for LifeStage

Alexandria	Name	Concept	Look into	Priced	Look into	Options			
Age		grade		grade		LTC early	Life Later	ROP	Comments
50+	Debby	A	1	B	2	Yes 3	?-4	No-10	Dollars
?	Brent	B+	3	B-	6	NA-5	Yes 3	Yes 1	
45-49	Angela	A	3	B	6	No-8	No-7	Yes 4	
45-49	Scott	B	1	B	1	No-B-	No-B+	Yes	mizxed up rating
50+	Craig	C	3	C	4	No-8	Yes-4	Yes 4	50+
45-49	Shari	A-	2	B	5	Yes-2	No-8	Yes-1	
50+	Dan	A	3	B	7	yes-3	Yes-3	yes-5	50+
?	Amy	B	5	B+	5	Yes-5	No-9	Yes-?	
45-49	Kevin	B+	2	C	3	Yes 2	? 5	?-5	Need 50% ROP
40-44	Lynn	A-	3	B-	5	?- 3	?- 3	?-3	

Figure 2 - Edina 1 focus group ratings for LifeStage

Edina 1	Name	Concept	Look into	Priced	Look into	Options			
Age		grade		grade		LTC early	Life Later	ROP	Comments
?	Katie	B	2	C	2	No	No	Yes	
45-49	Michael	B	3	C-	3	Yes-1	Yes-1	Yes-1	
35-39	Shira	A-	1	B	3	No-5	No-5	Yes-4	High costs
35-39	Ben	D	3	D	3	Yes-8 (?)	No	No	Not for family; invert ratings?
35-39	Lisa	B	1	B	1	Yes-1	Yes-1	yes-1	
40-44	Matt	B	5	C	5	Yes-4	Yes-4	Yes-4	
45-49	William	D	9	B+	5	Yes-2	Yes-2	Yes-2	Self-described Skeptic
40-44	Jaime	B	1	C	1	Yes-1	Yes-1	No-5	
45-49	Ron	A	1	A	1	No	No	No	Benefit incredible; Win-Win

Figure 3 – Edina 2 focus group ratings for LifeStage

Edina 2	Name	Concept	Look into	Priced	Look into	Options			
Age		grade		grade		LTC early	Life Later	ROP	Comments
40-44	Brent	B-	3	C	3	Yes-2	No-5	yes-2	Costs
45-49	Jill	B	6-7	B-	5	Yes-5	Yes-3	No-5	
35-39	Edward	B+	2	F	5	Yes-3	No	Yes-3	
40-44	John	C	1	A	1	No	No	No	
45-49	Eric	B	4	D	5	No	No	No	
40-44	Jeff	B	1	B	8	No	No	No	
45-49	Julie	B	8	C	5	No	No	No	Single; no beneficiaries;outlier
35-39	Peter	B+	3	B	3	Yes-2	?-3	No	Worthwhile

Figure 4 – Dakota focus group ratings for Lifestage

Dakota	Name	Concept	Look into	Priced	Look into	Options			
Age		grade		grade		LTC early	Life Later	ROP	Comments
45-49	Robin	A	2	C	9	NA	NA	NA	
40-44	Danny	A	1	B	8	NA	NA	NA	
50+	Amy	B-	3	C-	6	NA	NA	NA	
40-44	Paul	B+	3	B+	3	NA	NA	NA	
50+	Mary	B	8	D	9	NA	NA	NA	Outspoken LTC expert; no Fam.
45-49	Melanie	B	3	C	4	NA	NA	NA	
45-49	Jodi	B-	3	C	7	NA	NA	NA	
50+	Jacki	A	1	C	4	NA	NA	NA	Cover Facility costs??
45-49	Kim	B	8	F	10	NA	NA	NA	Expert; Prem. should be health not age
45-49	Kathy	B	1	D	10	NA	NA	NA	