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**Long Term Care –
Risk Profiles, Determinants and Financing**

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Long Term Care Insurance: French and International Perspective

Pierre-Yves Le Corre

Introduction: from Ageing to LTCI Needs

- ▶ The LTC challenges are pressing:
 - The LTC phenomenon is rapidly expanding along the ageing trend
 - The public systems will not be able to provide solutions for all
 - ▶ Globally speaking the LTCI (private) industry is still in its infancy
 - Due to the limits to be met by public systems, the LTCI needs are large...
 - ...but only a couple of LTCI markets have developed significantly so far
 - ▶ An international overview of the LTCI markets is worth of interest
 - to identify the various approaches and successes
 - to understand the critical success (or failure!) factors
- ...knowing that no unique and perfect solution may be valid for every place

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Introductory Overview of LTCI Markets

- ▶ The large private LTCI markets
 - France: the largest European market
 - The USA: the oldest market
 - Israel: a group market
- ▶ The public LTCI scheme “markets”
 - Germany, Japan: universal but financially uncertain
 - Singapore: an organized LTCI market
- ▶ In other countries: potential for the future
 - Emerging: South Korea, disappointing: UK, or potential: Spain, China
 - and all the others...

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The Large Private LTC Insurance Markets

The LTCI Market in France

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The LTC Framework in France

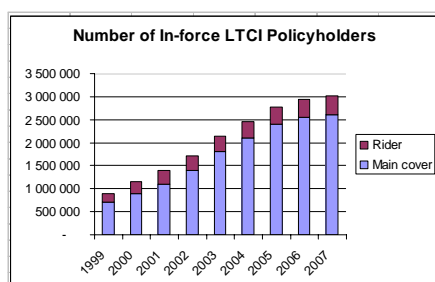
- ▶ The average cost of LTC per person: EUR 2,500 to 3,000 per month
 - To be compared with the average pension, which is about EUR 1,200 per month
 - Gap to be financed: average EUR 1,500 per month
- ▶ Public scheme APA (started in 2002), succeeding a previous system (PSD)
 - 1 million people over 60 (2007) are granted the APA LTC benefit
 - EUR 413 monthly average APA benefit for home cared people
- ▶ Government / Parliament currently working on a new comprehensive framework
 - Towards a reshaped public system focused on the lower financial means population
 - And giving way for a large private insurance market
 - Make accumulated savings transferable to LTC funding, combine LTC & retirement plans
 - Include LTC premiums in a tax deductible retirement pocket ? (currently no tax incentive)

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France: a Leading LTCI Market



Source: Scor Global Life est. taking into account FFSA figures (Insurers), and Mutuels and Institutions de Prevoyance figures

- ▶ 3 million policyholders (2007)
- ▶ 15% average annual growth (2000-2007), slowing down in 2006-07
- ▶ Both individual and group market:
 - Policies: 45% individual / 55% group
 - Premium income: 90% individual
- ▶ Market still highly concentrated
4 companies = 70% of market
- ▶ Banking networks: 45% market share

NB : SCOR reinsures about 25% of the total LTCI market

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French LTCI Products: the Technical Features

► Main Product Features

- cash benefit: lifetime annuity ; + (sometimes) small lump sum for housing equipment
- leveled but **non guaranteed** premium rates - unisex premiums
- monthly benefits (possible from 300 to 2500 EUR): about 600 EUR in average
- simplified medical underwriting + waiting periods (3 years for senile dementia)
- maximum issue ages (70 or 75 year old)
- exclusion period (90 days)

► Eligibility criteria: irreversible loss of autonomy

- need of permanent assistance from a third person to perform at least 3 out of 4 ADLs
- health condition: "consolidation" requirement (= no temporary loss of autonomy)
- additional use of AGGIR grid (complex), for "consistency" with the public APA system
- MMSE test for severe cognitive impairment



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Three Generations of LTCI Products in France

► 1st generation: « total » LTC (= severe loss of autonomy)

- Inability to perform 3 out of 4 ADLs (equivalent to 4 or 5 out of 6)

► 2nd generation: « total » + « partial » LTC

- Partial loss of autonomy is covered (2 out of 4 ADLs) (=2 or 3 out of 6)

► 3rd generation: same + some additional benefits

- For example: remote medical assistance or advices, introductions to assisting networks
- Funeral expenses

► Other generations perhaps to come:

- more comprehensive packages, more services



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The Group Products in the French LTCI Market

- ▶ Mainly employee benefits schemes
 - Generally mandatory application: all employees are insured (except disabled ones)
- ▶ No medical underwriting (except small groups) - no waiting period
- ▶ Uniform benefit for all policyholders - lifetime benefit
- ▶ Premium:
 - risk premium based on portfolio's profile (age, sex), reviewed annually
 - non-guaranteed rates
- ▶ Employees leaving the group:
 - Either conversion to individual LTCI (without UWing within 3 months after leaving)
 - Or possibility of a lifetime reduced cover ("reduction value" of benefit)



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The LTCI Distribution in France

- ▶ All the distribution is direct: no agent or broker distribution
- ▶ Bank-insurers (Credit Agricole, Credit Mutuel) have been successful
 - well-trained sales force for mass distribution
 - efficient marketing and sales support
 - target the 40-75 year old market, with LTCI as an assets protection
 - French simple LTCI products fit well into this channel
- ▶ Social economy insurance players: mutuals, « institutions de prévoyance »
 - Affinity sales, relying on old age protection image (AG2R)
 - Group approaches (eg MG for Post Offices employees & retirees)



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The Success of French LTCI Products: Key Features

- ▶ Simple products
 - Stand-alone basis: pure protection plans, few options
 - Simplified underwriting
 - Cover severe loss of autonomy
 - Pre-defined benefit, simple to understand and administer
 - Affordable price: 340 EUR average annual premium for individual LTCI
- ▶ Direct and efficient distribution
 - Often based on affinity relationship with clients
- ▶ Good tracking and experience record :
 - No failure or withdrawal of any player
 - Large and consistent experience data basis
 - Some rate increases have been implemented, but fairly moderate (eg 5 to 10%)



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The Large Private LTC Insurance Markets

Comparison of the US and French LTCI approaches



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USA – France : Two Different Models

	FRANCE	USA
Public benefits	PSD then APA	Medicaid / Medicare
Experience	~ 20 years	~ 30 years
Annual market growth	+15-20 % p.a. until 2006	< 0 on 2003-2007
Current market size (2007)	3 million insured in-force	6.5 million insured in-force
Products / benefits	cash benefit ("Indemnity")	mostly reimbursement (of care services)

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A Critical Glimpse at the US LTCI Model

- ▶ Complex products: the insured have many choice decisions to make
 - Reimbursement / Indemnity / Disability type policies
 - Home Health care / Assisted Living Facilities / Nursing Home expenses
 - Durations of benefit period (from 1 year to lifetime)
 - Daily / weekly / monthly reimbursement
 - Level of inflation protection: a "must have", but quite expensive
- ▶ Distribution is mainly intermediated (agents or brokers), implying training issues
- ▶ The US LTCI players have been facing serious difficulties
 - Many players withdrew due to losses or lack of profitability
 - Several of the remaining players have been filing to implement large rate increases
 - Product monitoring: lack of consistent data, poor anticipation of inflation and benefit duration
 - Administering the reimbursement of invoices is heavy

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Comparative Comments on the US and French Models

▶ The US approach:

- Currently mainly reimbursement, aiming at covering all the costs
- Thus complex products to design, expensive and difficult to monitor and administer
- In practice: low flexibility /inception options, limited durations, inflation issue, price increases
- LTCI Market: adjusting for many years (still ongoing)

▶ The French approach:

- Coverage of severe impairments, now extending to less severe ones
- Simple to sell and administer - monitorable (large consistent experience)
- In practice: flexibility due to cash benefit, but
 - generally does not cover the full cost of LTC
 - and does not fit into the actual need of services
- LTCI Market: needs a new life, in synergy with the forth-coming re-shaped LTC framework

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Towards Some US / French Convergence?

▶ The US approach may move towards products being:

- More affordable: more limited covers
- More flexible:
 - hybrid cash / reimbursement
 - benefit pools
 - LTCI combined with Life Insurance or Annuities
- More simple: combined rather than itemized (eg SNF, ALF, HHC) benefits

▶ The French approach may move towards:

- More comprehensive covers, including services and assistance
- Larger benefits, favoured by the new public framework and incentives

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The Large Private LTC Insurance Markets

LTCI Market in Israel

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Israel: Another Developed LTCI Market

- ▶ A large market: 3 million insured (total Israel population: 7 million)
 - Mainly Group LTCI through Health Funds (compulsory Health insurance)
 - Individual LTCI also emerging
- ▶ Reimbursement type model
 - Many similarities with the US model
- ▶ Highly regulated market:
 - New regulation set up in 2003
 - Claim triggers, ADLs definitions
 - Commissioner's approval for rate increases

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Israel: Another Developed LTCI Market

► Claim eligibility and benefits

- The 2003 regulation has relaxed minimum claim eligibility criteria:
 - 50% benefit for inability to perform 3 ADLs out of 6
 - 100 % benefit in case of cognitive impairment
 - Temporary impairment is covered
- Some policies may even provide 100% benefit for 2 (incl incontinence) out of 6 ADLs
- Products may also include an additional rehabilitation benefit

► Market experience:

- Prices have been historically more market driven than technically driven
- Price increases (+40 to 50%), subsequent to the 2003 new regulation
 - but also reflecting previous under-pricing



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LTCI International Perspectives

- The Large Private LTCI Markets
- The Public LTCI Scheme “Markets”
- The Other Developing or Future LTCI Markets



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The Public LTCI Scheme “Markets”

Germany: a Social Security LTCI System

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The LTCI Framework in Germany

- ▶ LTCI system implemented in 1995-96, part of Social Security (5th pillar)
- ▶ Mandatory and universal:
 - all ages are covered, whatever the health is
- ▶ The statutory LTCI system is a part of the health/medical expenses system:
 - **Public LTCI funds** (about 250, combined with medical insurance funds):
 - the main LTCI system: 90% of total population
 - funded by a payroll tax (pay-as-you-go system): 50% employer / 50% employee
 - High income, self-employed, public servants can opt for **private insurance**:
 - the private statutory LTCI: 10 % of total population - same benefits as the public system
 - accumulation funded: individual leveled premium, annually reviewable
 - premiums are lower than the public system contributions, due to underwriting and social profile

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The Statutory LTCl System in Germany

- ▶ Claim definition: assessment of the care needed to perform Instrumental ADLs
 - measuring the time length that is needed to assist the claimant
 - for washing & toileting / feeding / mobility, transferring & dressing / house holding
 - classification into 3 severity classes, depending on:
 - occurrence severity: once a day / three times a day / whole day & night
 - total time length required
 - Cognitive impairment also considered, separately from physical impairment
- ▶ Benefits:
 - Choice between care services (institutional or domiciliary) and cash
 - cash benefit (to pay informal care): significantly lower in value than the care benefit
 - combined benefits are possible
 - 2 million people receive benefits, 2/3 have opted for home care benefits (cash or services)
 - only a part of the LTC costs is covered

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Issues in the Statutory LTCl System in Germany

- ▶ Structural issues: lack of LTC services infrastructures
 - informal care is often the only available solution
 - LTCl Funds ensure the supply of care, without ability to manage LTC infrastructure
- ▶ Monitoring and financing issues
 - Unbalanced situation since 1999
 - Contribution to public system had to be increased from 1.7% (1996) of salaries to 2%
 - A great concern: contribution projected to increase to 2.8% in 2020, 3.6% in 2030
 - Causes: initially under-estimated costs, and structurally growing demographic dependency
 - Domiciliary care benefits increased by 5 to 17% (effective July 2008)
 - Temporary increase (until 2010), to revert the trend of the increasing use of institutional care
 - Additional unfavorable prospects
 - decreasing supply of informal care
 - the care providers services to be substituted will be more costly

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The Private LTCI Market in Germany

▶ Private insurance:

- outside of the private part of the statutory LTCI system
- a small LTCI market exists, aiming at complementing the statutory LTCI benefits

▶ The private LTCI market:

- The main segment: products sold by health insurers
 - reimbursement of LTC costs: 185.000 policies
 - daily LTC benefit: 828.000 policies
 - annually reviewable rates
- A small segment: LTC annuities sold by life insurers
 - mostly linked to annuities and funeral insurance
 - or single premiums linked to endowment policies or accumulations plans
 - only 25.000 policies
 - leveled premiums, not fully guaranteed

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Comments on the LTCI Experience in Germany

▶ The limits of the Statutory LTCI system

- Cannot be seen as a true insurance market
 - mandatory insurance, social security approach, no free competition
- Complex claim definition under stringent legal rules
- Only provides for partial cover of LTC costs
- Benefit choices (cash / care) biased by deficiencies in care supply and infrastructures
- The financial balance of the System is more and more uncertain:
 - sustainability of contributions increase ?

▶ The Rürup Commission proposals:

- Individual saving accumulation approach
- Private individual insurance

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The Public LTCI Scheme “Markets”

Japan: a Public LTCI System

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The LTCI System in Japan

- ▶ State “Gold Plan” (1989)
 - Successfully expanded LTC services: nursing homes, home care
 - Approach: free services delivering
 - Faced increasing costs and financing issues
- ▶ Implementation (2000) of a mandatory “insurance” system
 - Funded: 50% tax / 50% insurance premium
 - Insurance premiums paid by people over 40
 - shared payment employer/employee for working people
 - System administered by municipalities
- ▶ Private LTCI market: before 2000
 - around 2 million policyholders between years 1989-98,
 - declined after the public scheme was introduced in 2000 – now in run-off

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The LTCI System in Japan

▶ LTCI benefits

- Only people over 65 are eligible (except if “age-related” disease)
- Eligibility solely based on needs, not on financial means
- Sophisticated assessment of needs – 6 levels of needs
- Benefit co-payment by insured: 10% of care costs
- No cash benefits - only formal care is reimbursed (up to a certain limit)

▶ Issues to be faced by the public LTCI system

- Cost control, long-run sustainability and financial balance
- 2006 review: premium financing extended to lower ages (20-40), preventive care services developed, increased co-payments

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The Public LTCI Scheme “Markets”

Singapore: an Organized LTCI Market

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Singapore Eldershield LTCI Public Scheme

- ▶ Social LTCI scheme launched by Ministry of Health in 2002
- ▶ Tender process with insurers every 5 years
 - In 2002, Great Eastern Life Assurance and NTUC Income were selected
 - One more additional participating insurer selected in 2007: Aviva
- ▶ Eligibility /membership
 - All Singaporean citizens and permanent residents, but opt-out possibility
 - Random assignment to an insurer
 - but members can choose to switch to another insurer of the Scheme
 - Entry age is 40-70 years old.
 - More than 600,000 members – few people have opted out

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Singapore Eldershield LTCI Public Scheme

- ▶ Benefits
 - Lifetime coverage
 - If policyholder cannot perform 3 out of 6 ADLs
 - Cash benefit (SGD300 per month), up to a maximum of 60 months.
 - Payout starts after a 90-day deferment period
- ▶ Premiums
 - Payable till age 65 although coverage is lifetime
 - Eldershield Rebate
 - Every 5 years, policyholders are entitled to 50% of accumulated surplus
 - 2007 rebate: about 7% of premiums returned to policyholders

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Eldersshield LTCI Scheme– 2007 Changes

- ▶ Improved scheme for new entrants
 - Benefits increased to SGD400 per month
 - Benefit duration extended to a maximum of 72 months
 - Increase in monthly premiums – only SGD 2 !
- ▶ No automatic upgrade of benefits for in-force policyholders
 - Must undergo medical underwriting
 - Must pay one-time off premium adjustment as well



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The Private LTCI Market in Singapore

- ▶ Some private LTCI products are also available
 - A couple of players are active
 - Cash benefits: larger (up to SGD 2,500) than in the public scheme
 - Benefit eligibility based on 2 or 3 out of 6 ADLs, or cognitive impairment
 - Some products include initial benefit as a multiple of monthly benefit
- ▶ Private insurance to complement the Public system ?
 - Due to limited amount of public benefit (< SGD 400 per month)
 - Private LTCI products have room to develop
- ▶ The private market is still very small for the time being



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LTCI International Perspectives

- ▶ The Large Private LTCI Markets
- ▶ The Public LTCI Scheme “Markets”
- ▶ The Other Developing or Future LTCI Markets

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The Other LTC Insurance Markets

LTCI in the UK: a Disappointing Market

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The UK LTC Framework

- ▶ An uncertain LTC context: lack of political emphasis on LTC
 - Royal Commission on LTC: set up in December 1997, reported in 1999
 - called for all personal social care to be made free to the patient,
 - NHS Plan (2000), but no free care put in place
 - Social system
 - Combines local authorities and NHS, but poor coordination
 - Struggling with funding resources, focusing on the poorest population
 - Eligibility to free or subsidised care: based on means testing (including home)
- ▶ In practice a limited room is left to the private LTCI market
 - Private LTCI solutions are evicted by the public framework...
 - ... perhaps more because of State welfare expectations than for objective reasons

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The UK LTCI Market

- ▶ Products:
 - Immediate care need: impaired annuity
 - Pre-funded insurance product
 - Alternative pre-funded approaches:
 - equity release / reverse mortgage
 - bond approach: insurance paid by either the bond income, or the principal
- ▶ A disappointing market:
 - Less than 50,000 policies in force after 15 years
 - Very few players still active:
 - several players exited the market in the recent years

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Comments on the UK LTCI Market

► Supply / demand mismatch

- Limited demand: misleading expectations
 - Free health services induce expectations that “State will pay” for LTC costs
- Un-appropriate offer: products are too sophisticated
 - LTCI benefits combined to saving products, including too many options
 - Hard to understand, hard to sell, too expensive
- Counter-productive distribution: IFAs looking for too complex products

► A failure diagnosis:

- Several LTC developments and products have failed
- Price increases (eg 2005) have been highly detrimental to the LTCI image



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The Other LTC Insurance Markets

LTCI in South Korea: a Promising Start
Hampered by a New Public Initiative



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South Korea: an Emerging LTCI Market

- ▶ 2003: opening of a private LTCI market
 - LTCI product developed by Samsung Life with SCOR support
 - Cash Benefit – duration from 2 to 10 years
 - 2 years waiting period for mental impairment
 - Eligibility claim criteria based on 6 ADLs
 - Intense discussions with the South Korea Commissioner to obtain:
 - rate approvals
 - principle of reviewable rates
- ▶ Several carriers created their own product in the subsequent years
 - Similar to Samsung Life product
 - Total LTCI market in-force (end 2007): nearly 200,000 policyholders

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South Korea: a New Public LTCI System

- ▶ July 2008: a public LTCI scheme has been put in place
 - Extension of National Health System
 - LTC premium= 4.05% of NHS premium
 - Benefits for people older than 65 (+ those below 65 who suffer from specific diseases)
 - LTC needs: multi-step assessment, 3 levels (out of 6 levels) are covered
 - Mostly reimbursement, either home care, or nursing home facilities
 - Except rural areas (no care supply): cash benefit
 - Co-payment: 15% (homecare) or 20% (facilities)
 - So quite similar to the Japanese system
- ▶ What about Private LTCI now ?
 - After only 5 years, the LTCI market (stand alone products) is unfortunately stopped
 - LTCI riders (cash benefits) on Whole life policies will be proposed by large insurers

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The Other LTC Insurance Markets

Spain, China...: promising ?

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Spain: an Opening LTCI Market

► New framework:

- Prepared through White Book (2005) and discussions in Parliament (2006)
- Contribution of SCOR/ICEA "Guide for Building up a LTCI Product" (2006)
- New public system put in place early 2007
 - 3 levels of impairments: "gran dependencia" / "severa" / "moderata"
 - starting with only the "gran dependencia" covered
 - extension planned for 2015

► Private insurance:

- Boosted by the publicity made on the public system
- Favored by the tax incentive for "gran dependencia" cover
- Room for private insurance to cover also moderate impairments

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The Premises of LTCI in China

- ▶ Growing concern, due to
 - ageing population, with very large numbers
 - hundreds of millions of more than 60 year old people !
 - family structures have been narrowed
- ▶ No real LTCI market yet, but emerging tryouts
 - some LTCI type benefits, combined with life or disability
 - banking distribution
- ▶ Large regional discrepancies,
 - do not help building commoditized products



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The Other LTC Insurance Markets

- ▶ Europe:
 - Belgium: LTCI Flemish Fund + some cash benefit private LTCI products
 - Italy: cash benefit products, few policies sold yet
 - The Netherlands, Sweden:
 - full public systems for the time being, financing issues probably to come
- ▶ Canada:
 - emerging and replicating the US approach
- ▶ Asia:
 - Taiwan, Hong-Kong: some tryouts, limited achievements so far



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LTCI International Perspectives

As a Conclusion...

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Public LTC System and LTCI: a Realistic Duality

► Public / private articulation

- A public LTCI system may evict private insurance
 - but generally faces funding issues and limits
 - due to unfavorable demographic trends
- A more realistic approach: public system focused on social needs
 - private insurance to complement the public system through self-funding and mutualisation

► Concurring trends:

- Tightening regulation framework
 - due to the social sensitivity and the complexity of LTC
 - claim definition specifications, long-term financial requirements
- Private insurance: develop solutions adequately fitting the insured's needs and means
 - improve traditional products
 - combine LTCI with accumulation and life insurance products

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Concluding Considerations on LTCI

► Critical features of LTCI products

- Fixed benefit vs. reimbursement
 - administration and monitoring capabilities
 - versus direct satisfaction of needs, more challenging to monitor
- Claims definition (severity of loss of autonomy) and claims handling
 - a key monitoring tool
- Reviewable premium rates, but bearable by the insureds
- Simplicity: a key concept !

► The future of LTC insurance

- Confidence in product workability
- Patience for the right time to meet the demand and develop the market

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Long Term Care Insurance: French and International Perspective

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