Long-Term Care Insurance: Building a Successful Development

Pierre-Yves Le Corre
Swiss Re Europe SA, France

1 Introduction

Ageing creates growing long-term care needs (OECD, 2006). The financial services industry proposes financing solutions, such as savings or reverse mortgages, and more specifically insurers or reinsurers have designed ad hoc insurance solutions, tailored to long-term care (LTC) situations and needs.

LTC insurance has thus emerged over the last two decades as a promising area of development for the insurance industry, but only a limited number of markets have shown significant developments, such as the USA, France, Israel, Germany, Japan, Singapore and South Korea (Le Corre, 2008). Some other countries, like the UK, have not yet really succeeded in developing LTC insurance. Others, like Spain, have actively prepared a framework to develop this sector. However, insurance product approaches and frameworks differ significantly from one country to another, and success, whether commercial or financial, varies greatly between countries.

This chapter highlights and details factors and structural features which favour development of insurance solutions for LTC, thus helping to analyse successes or failures. The insurance approaches which have been undertaken in various countries illustrate the topic.

In a first step, relationships between public framework and private insurance offerings are examined. In a second step, various insurance models are described and analysed. The respective challenges, advantages and weaknesses of these models are then discussed from commercial as well as technical points of view. Finally, some perspectives are derived for the future of LTC insurance markets.

2 Public LTC scheme or private insurance market?

Building LTC programmes is an answer to structural trends and concerns, such as the ageing population, attention paid to impairments in old age,
progressive weakening of family support to older people and the growing cost of LTC.

2.1 Crowding out . . .

The existence of a public- or State-sponsored LTC system and the emergence or the development of private insurance are not independent from one another. The initial impression may be that a public programme would impede private insurance development, as evidenced by some studies (Brown et al., 2007). The Japanese situation is an illustration of this conflict. In 2000, a universal public programme was introduced, covering the whole population. Even if that system was partially financed (50 per cent) by an ‘insurance’ premium, co-paid by individuals over 40 and their employers, it was essentially public: financed by tax (50 per cent) and administered by municipalities. All persons over 65 were eligible for benefits without any specific condition. The implementation of this system has had a radical impact, wiping out the existing private LTC insurance market, which had grown in the 1990s: a massive lapsation hit the two million existing insurance policies.

South Korea has experienced a similar evolution. As of 2003 private LTC insurance had been developed, and products’ features and prices had been approved by regulators. In a couple of years, 200,000 policies were sold. However, a public programme with features similar to the Japanese system was implemented from mid-2008. As a consequence, the development of the private insurance market was stopped.

The UK is another example of a crowding-out effect, although in a more hidden way. Despite many efforts, no significant LTC insurance market has really emerged: the number of policies has not really gone beyond 50,000. An anticipation factor may explain that people are accustomed to having all medical costs covered by the National Health Service system. For LTC needs, many people seem as well to anticipate – rightly or wrongly – that a national system may or should do the same. That does not leave much room for private insurance to develop convincing offers.

A US survey prepared for America’s Health Insurance Plans (LifePlans Inc., 2007), a group representing private health insurers, has identified the belief that ‘government will pay for the care’ as being far more widespread among non-insured people than among insured ones. Non-buyers seem to have a far less advanced risk education and understanding than insurance buyers. The private insurance crowding out may thus materialize, even if it is based on unrealistic expectations.

2.2 . . . overtaken by tough realities

Relations between public and private systems are, however, more complex. First of all, a public system may clearly state that it does not cover the whole scope of LTC needs. The German universal system, implemented in