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Long Term Care Insurance in Australia – a survey of insurer attitudes

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Introduction

- Targetted Approach
- Covered here:
 - Online survey – 26 responses
- Not covered here:
 - Personal interviews – 6 interviews



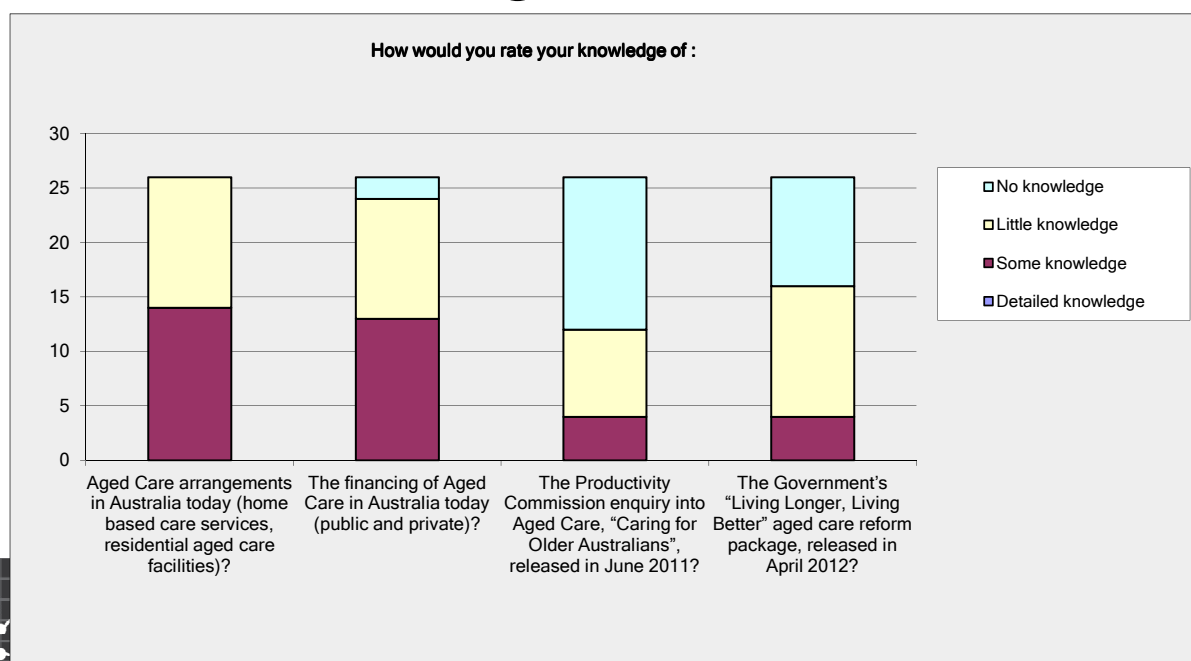
Partly funded by 2012 Research Grant from the
National Seniors Productive Ageing Centre

Online survey

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



Awareness of Aged Care financing and reforms



Awareness of LTC Insurance

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

Australia, Israel, Japan, South Africa, and New Zealand were identified by one or two respondents.
Note: participants are allowed to specify more than one country. Hence, the total does not sum to 26.



Is the risk insurable ?

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



Is the risk insurable ?

- Comments:

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

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

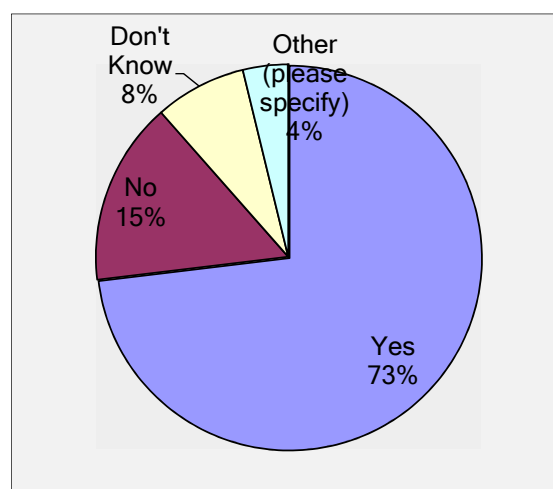
It should be an insurable risk, but one for which awareness and therefore demand is low.

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



Potential suitability of existing products for Australian market

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



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

Reasons for supporting LTCI in Australian context

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



Barriers to LTCI in Australian context

- Limited demand (7)
 - “There would be no consumer demand for it”
- State will provide (4)
 - “Too long term, perception of State provision”
- Need for government intervention (3)
 - “Consumer resistance without any significant government intervention”



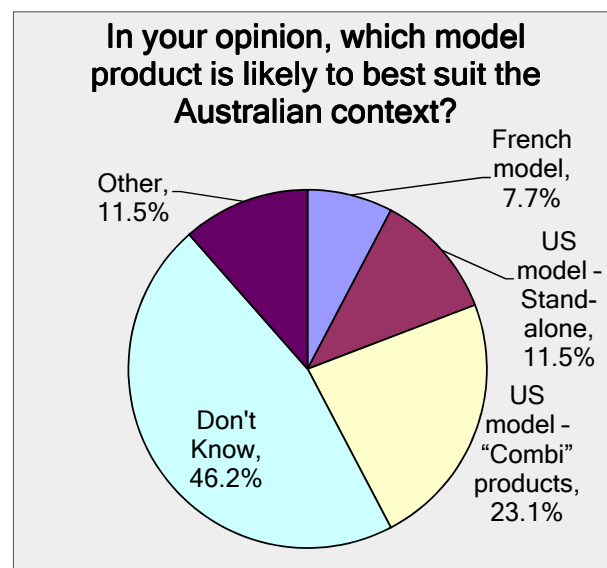
Barriers to LTCl in Australian context

- Other
 - “Hard enough as it is for people to retire with adequate retirement income”
 - “impression care is fairly good even if you do not have the resources, so not sure I see the need”



Preferred model ?

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



Comments around preferred model

- Product design (6)
 - As a rider
- Specific attitudes (5)
 - “The challenge is getting a product that customers will buy. Which of these options will work is a matter for market testing”



Comments around preferred model

- Specific regulation (3)
 - “LTCl works best where fully integrated with state provision “
- Transparency (2)
 - “Hard to see a participating model working with Australian consumers (lack of transparency/clarity).”



Other points of view:

“None of them would be saleable”

A ranking of supply side barriers

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

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Other supply side barriers (7 mentions)

- Cost
 - “Is an expensive product, and therefore market would be small.”
- Too long term
 - “Australian consumers have generally avoided ... paying now for something in the far future”



Other supply side barriers (7 mentions)

- Lack of consumer appeal/awareness
 - “Customer knowledge - lack of education”
- Other
 - “Potential for improved government provision of services, removing the market for private insurance”



A ranking of demand side barriers

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

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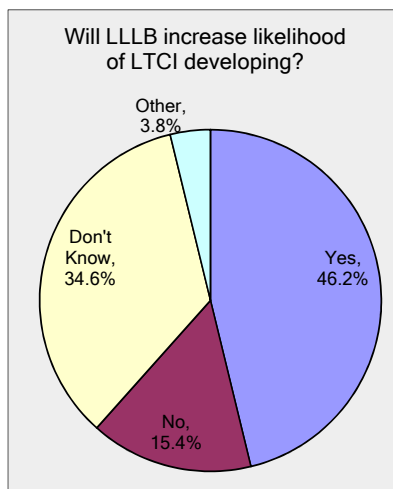
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Other demand side barriers (4 mentions)

- Too long term
 - “People aren't interested in buying protection against a risk that won't eventuate until many years into the future.”
- Wealth paradox
 - “Low to middle income earners feel the government will look after them. Higher net worth rely on having enough assets to fund their need.”



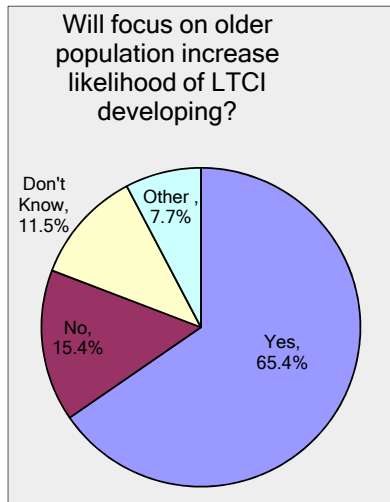
Views on future directions – impact of LLLB



Illustrative comments	
No	<p><i>an issue for the future, not for now. The ones that need it in near future will not be able to afford it.</i></p> <p><i>User pays only applies if you have sufficient assets. If you have sufficient assets you don't need insurance.</i></p> <p><i>General low awareness ... "she'll be right" or the "government will look after me" etc. A package without promoting the need to self insure will have little impact on demand ... Working Australians in general have little income protection insurance and so leave their young families with the risk of loss of life style - why would people become interested in insurance in the aged segment. If the government is looking to reduce the burden of aging population ... then it needs to play a greater role in promoting the need to insure.</i></p>
Yes	<p><i>Any transfer of potential costs onto users is likely to have some impact on the ability for providers to market LTCI products</i></p> <p><i>Costs will become more apparent earlier - ... the challenge will be to make the products cost effective and profitable</i></p> <p><i>like health insurance, increasing the profile of the need, and making it clear that the state only provides a minimum level of care will encourage those who can afford it to buy insurance</i></p>



Views on future directions – focus on older population



Illustrative comments	
Awareness will increase...	<p><i>Increased focus leads to increased awareness of need and development of financial solution options</i></p> <p><i>People are seeing the financial impact of older relatives needing aged care - increased awareness of needing to fund this earlier</i></p> <p><i>It's an increasing demographic (both size and asset pool). The insurance market will be considering how to develop products in this arena</i></p>
...but challenges remain	<p><i>I think the likelihood will increase, but it is still low.</i></p> <p><i>LTC is a natural extension to longevity solutions. But it will take a long time for anything significant to happen.</i></p> <p><i>Products will develop - but selling them will be the challenge</i></p>

Conclusion from Online Survey

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



Thank you for your attention

- Read the full report
- <http://www.productiveageing.com.au/userfiles/file/LongTermCareInsurance%20Final%20Web.pdf>
- <http://tinyurl.com/BrowneLTCl>
- Contact the author
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