The Actuarial Argument for Gender-Distinct LTC Rates

By Dawn Helwig

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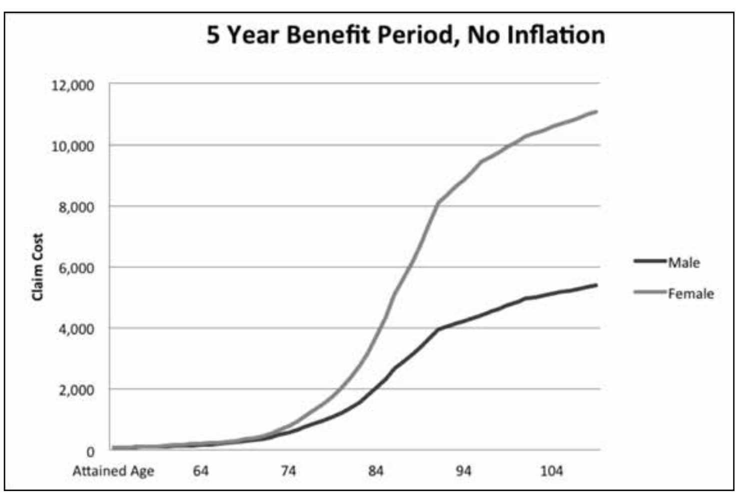
Long-term care (LTC) insurance has traditionally been sold using unisex rates, in spite of the fact that females have significantly higher morbidity than males do. All of that changed in 2012, when Genworth introduced the first LTC policy with gender-distinct rates. Since then, several other companies (John Hancock, Mutual of Omaha, Transamerica and LifeSecure) have followed suit, and others are either considering it or in the process of developing new rates.

The practice of charging gender distinct rates has been challenged in proposed regulations (generally unsuccessfully) by a handful of states, and the National Women's Law Center has recently filed a complaint against gender-distinct rates in the U.S. Office of Civil Rights. The basis of the Law Center complaint is that gender-distinct rates violate Section 1557 of the Patient Protection and Affordable Care Act, which disallows discrimination under any program which is receiving federal financial assistance. They state that, for LTC insurance, the "financial assistance" being received is participation in federal Partnership programs.

Regardless of how you personally feel about the introduction of gender-distinct rates for LTC insurance, there is clear actuarial justification and rationale for separate rates for males and females.



Source: Milliman 2011 *Long-Term Care Cost Guidelines*

ACTUARIAL BASIS FOR GENDER-DISTINCT RATES

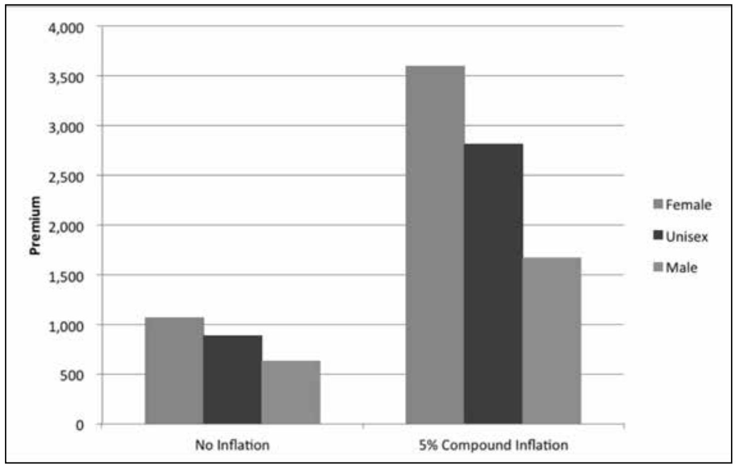
Many factors affect the determination of LTC insurance premiums and resulting LTC insurance profit results, including the insured's age, health history (and the effectiveness of underwriting in discovering that history), marital status, benefits purchased, geographical area and gender. Many of these factors are already used to separate premiums, including issue age, marital status, and underwriting class, since the claim experience differences are statistically significant. The fact that long-term care policies have historically not used gender to set separate premiums for males and females has resulted in the introduction of some risk when the distribution of business by gender does not match pricing expectations.

LTC claims experience does vary significantly between males and females. The chart below demonstrates the difference between male and female claim costs by attained age.

If these separate sex distinct claim costs were fully used in pricing policies, female premiums could be as much as 15 to 30 percent higher than premiums developed using unisex assumptions, and male premiums would be correspondingly lower. Contributing to these premium differentials is the fact that female mortality is also lower than male mortality, resulting in more females living to the advanced ages where the morbidity difference is greater. The chart on page 21 shows the comparison of male and female premiums for someone issued at age 57 to current unisex premiums, assuming the claim costs above, separate for inflationary and non-inflationary policies.

Given the large difference in the "theoretically correct" premiums between males and females, it could be stated that, under a unisex rate structure, males are being over-charged for their benefits, while females are being under-charged.

This large differential in gender claim costs can lead to a distribution risk in a policy with unisex rates, if the actual percentage of policies sold to females is higher than what was anticipated in pricing. For example, if a policy was priced by an insurance company to yield a 15 percent internal rate of return with an assumption that 57 percent of policies issued are to females, and if the actual percent of females issued turns out to be 65 percent, the company's internal rate of return would drop to around 12 percent.



LTC policies have been subject to large increases in premiums in recent years. While much of this increase has been due to factors such as low lapse rates and low interest rates, some of the increase is due to anti-selection from people who purchase the policies and have higher risk profiles than what was assumed in pricing. The percent of females purchasing the policies, compared to what was assumed in pricing, is one of those risk factors. Allowing gender-distinct rates provides companies with one way to mitigate that risk.

A basic principle of sound actuarial pricing was stated in "Individual Health Insurance" (edited by Francis T. O'Grady, 1988, Society of Actuaries), which stated, "A critical element of gross premium structure [for individual health insurance]…is the recognition of features representing statistically significant claim cost variations." One such feature is gender. Other insurance products, such as auto insurance and life insurance, also have statistically significant claim cost variations between males and females and use gender-based rates. LTC similarly has significant differences in male and female claim costs.

PRACTICAL CONSIDERATIONS

In today's market, deciding whether or not to charge gender-distinct rates will be dependent on competitive considerations, which may vary somewhat depending on whether a company is selling through brokers or through captive agents. A brokerage sales force will have greater ability to move male applicants to companies with the new gender-based rates and to keep females in companies that still have unisex rates. This could result in companies with unisex rates having blocks of business that have an increasing percentage of female insureds.

Sales in the multi-life market are not able to use gender-distinct rates, due to discrimination requirements contained in Title VII of the Civil Rights Act of 1964. This means that companies who want to continue selling in the multi-life market will need to continue having a set of unisex rates available. Having a set of unisex rates for use in the multi-life market and a set of gender-distinct rates for use in the individual market could present some dilemmas for agents and companies on how to present rates to groups (especially in the employer carve-out market).

For a company who has decided to implement gender-distinct rates, some decisions will need to be made regarding whether the full differential which can be justified actuarially should be reflected, or whether some subsidy between male and female rates should be maintained.

An additional decision which will need to be made is whether to use gender-distinct rates for married couples. I.e., do you charge married couples unisex rates, with the marital discount reflected, or do you charge each spouse their appropriate gender-distinct rate, with the marital discount reflected? While the combined rate for the married couple at issue could be the same between the two methods, the key difference comes when one spouse either dies or lapses their policy. Under the first method, the remaining spouse would continue with the unisex rate, while under the second method, a surviving female spouse (for example) would have the higher gender-distinct rate with the spouse discount. In considering which of these two methods to use, a company needs to consider possible issues of anti-selection on lapsation which could occur.

Subject to results of regulatory challenges, it appears that gender-distinct LTC rates are here to stay. From an actuarial standpoint, this makes sense and appears to be a good thing. From a market standpoint, however, the effects remain to be seen.