

# **Past, present and future of private Long Term Care Insurance in Korea**

***- Introduction of public LTC insurance - Challenge or opportunity?***

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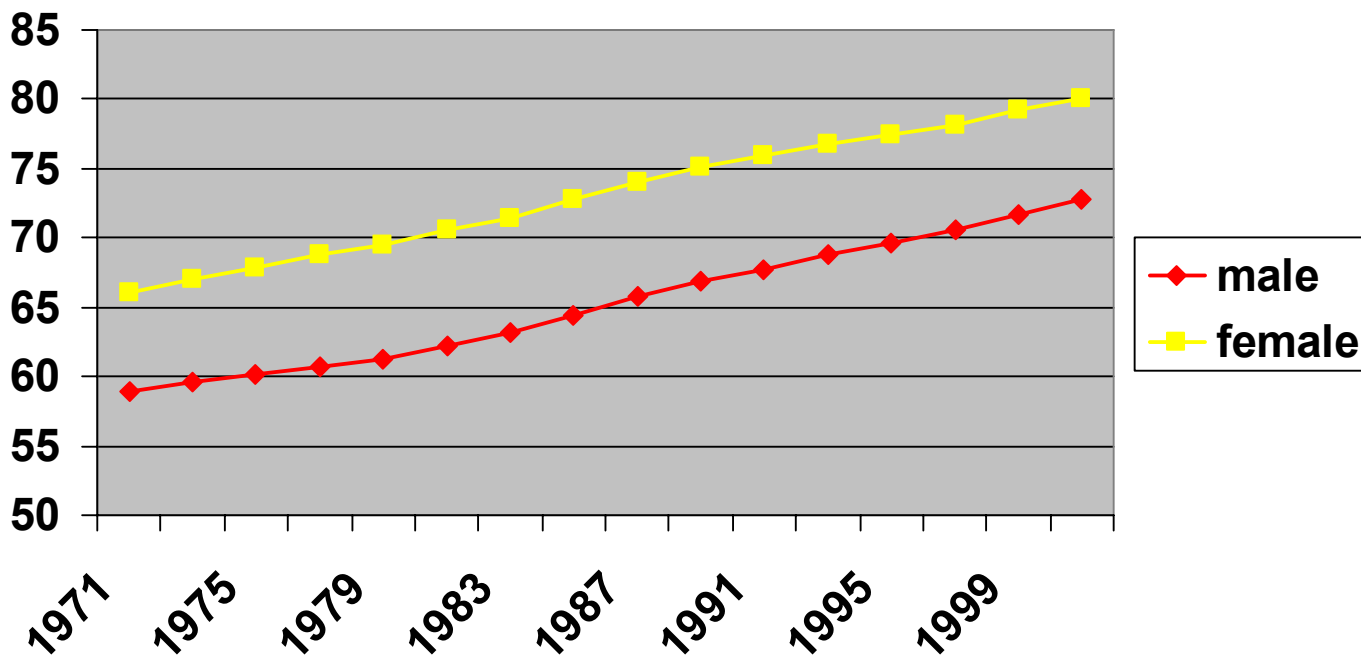
- The evolving need for LTCI in Korea
- Past and Present time of Private LTCI
- Public LTC Scheme - Is it a challenge or an opportunity?
- Future of Private LTCI: A New opportunity for Private LTCI
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# Why is LTCI needed?

- World wide trend in industrialised countries
  - increasing life expectancy
  - decreasing in fertility rates
  - increasing divorce rates and decreasing marriage rate
  - changing in the traditional roles held by woman
- A similar trend can be observed in Korea

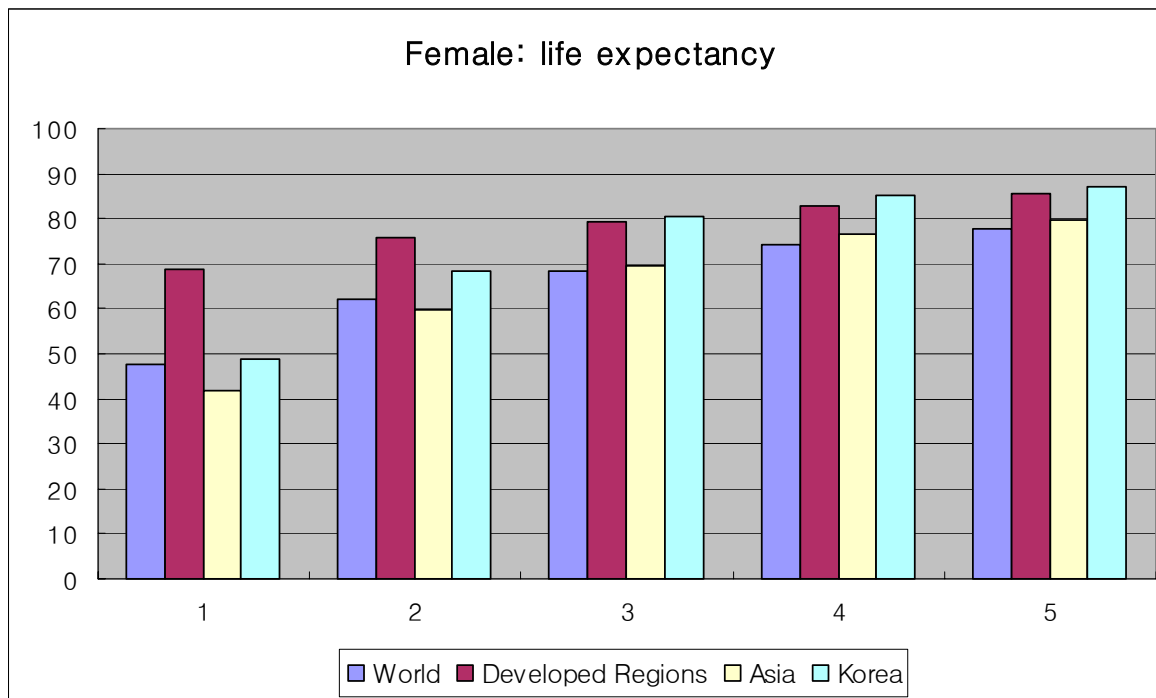
# Increasing Life Expectancy

## Life expectancy at birth in Korea



Source: Korean National Statistical Office

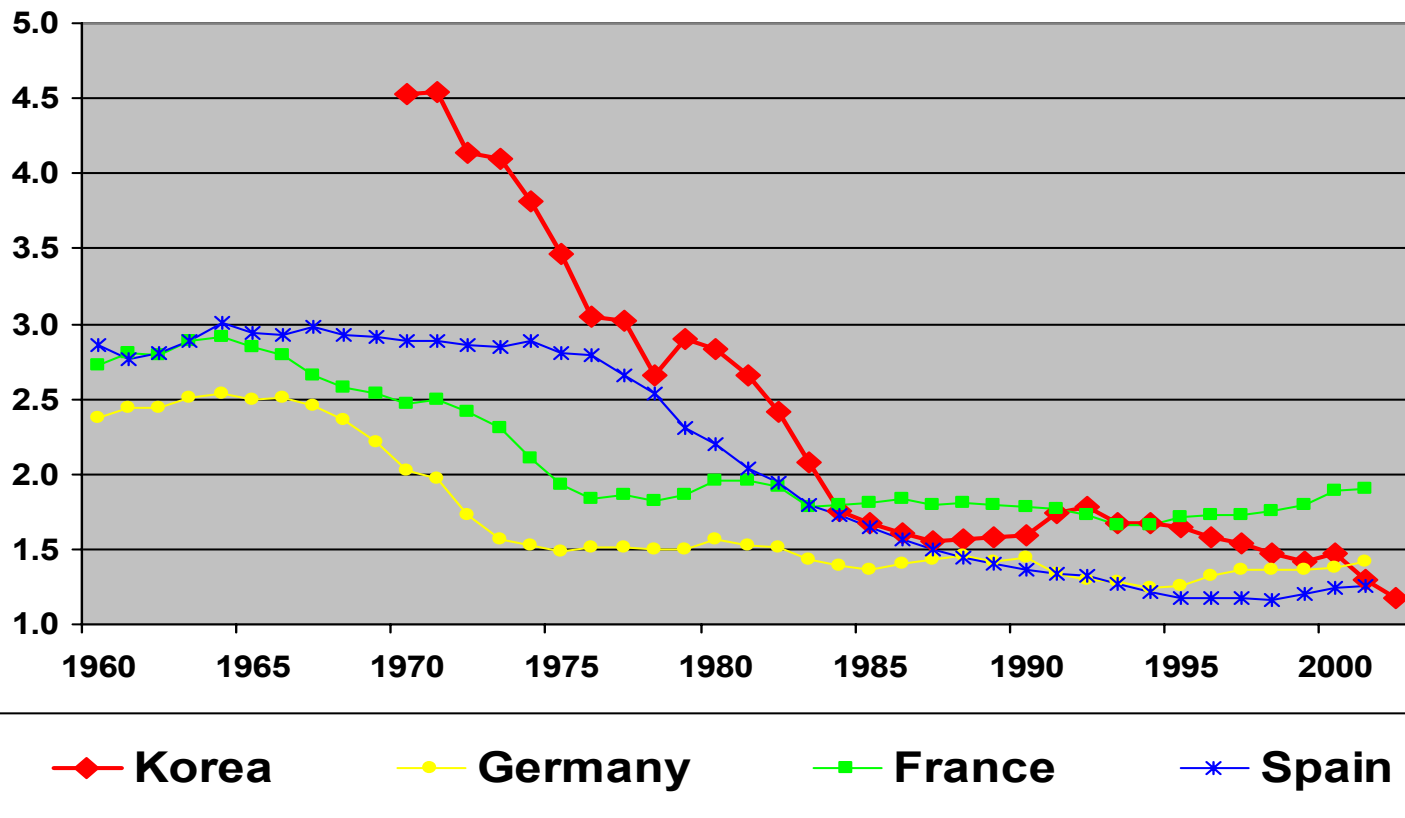
# Increasing Life Expectancy (Comparison)



Source: UN, World Population Prospects: the 2006 Revision (medium variant), 2007

Whereas Increasing ratio of World wide is 42.9%, Korean increasing ratio is 64.5%.

# Decreasing Fertility Rates



Source: Korean National Statistical Office  
Council of Europe, *Demographic Yearbook, 2002 Edition*

# The Characteristics of Family Careers in Korea

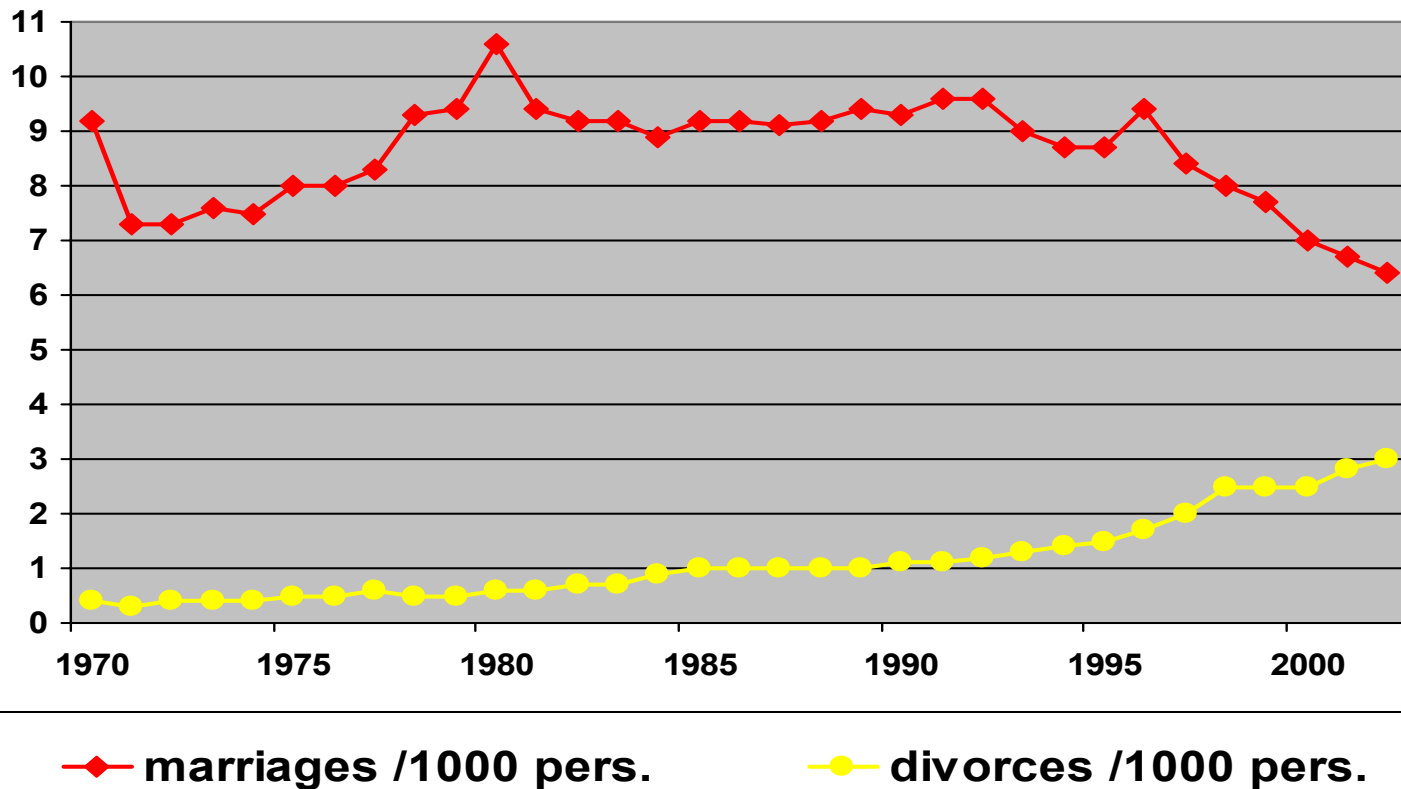
Sex	Spouse	Son	Daughter-in-law	Daughter	Other Family
Total	34.4%	7.3%	38.3%	14.7%	5.2%
Male	75.2%	8.5%	10.5%	4.5%	1.3%
Female	9.0%	6.5%	55.6%	21.1%	7.8%

Source: Ministry of Health and Welfare 2001

- For male: spouse cares in 75.2% of cases
- For female: children care in 83.2% of cases

 Low fertility rates will affect **female** much more than male.

# Changeing Social Attitudes



Source: Korean National Statistical Office

# Increasing Ratio of the old who lives alone

Year	2007	2010	2013
Number and Ratio of the old who live alone	881,793 5.4%	1,043,989 6.2%	1,186,697 6.9%

Source: Korean National Statistical Office

- The decreasing marriage ratio and increasing divorce ratio

 Increasing the ratio of the old who live alone

# Changes in the traditional roles held by women

## The Characteristics of Family Career in Korea

Sex	Spouse	Son	Daughter - in-law	Daughter	Other Family	Female Ratio
Total	34.4%	7.3%	38.3%	14.7%	5.2%	-
Male	75.2%	8.5%	10.5%	4.5%	1.3%	Minimum 90.2%
Female	9.0%	6.5%	55.6%	21.1%	7.8%	Minimum 76.7%

Source: Ministry of Health and Welfare 2001

- Increasing social participation of females

 Changes in the traditional roles held by women

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# First Generation of LTC in Korea - Stand-Alone Type Product (1)

Coverage	Detail	Benefit
LTC Diagnosis	If the insured is diagnosed as LTC	5,000 USD
LTC Annuity	If the insured is diagnosed as LTC and as long as he/she survives	12,000 USD per year (Maximum 10 years, 2 year guarantee)
Death without LTC	If the insured dies before LTC is diagnosed	Reserve

- Target market : Focuses on the needs of the elderly (50+)
- Requires complex LTC underwriting approach
- Premiums tend to be high
- Rates are almost always non-guaranteed

# First Generation of LTC in Korea - Stand-Alone Type Product (2)

- Concern
  - Expensive premium: invites Anti-Selection
  - Surrender Value: invites Anti-Selection
  - Death Benefit is set as Reserve

# Second Generation of LTC in Korea - Accelerated type Product (1)

Coverage	Detail	Benefit
LTC Diagnosis	If the insured is diagnosed as LTC	20,000 USD
LTC Annuity	If the insured is diagnosed as LTC and as long as he/she survives	8,000USD (maximum 10 years)
Death while receiving LTC annuity	If the insured dies while receiving LTC annuity benefits	100,000 USD- 20,000USD – Paid LTC annuity
Death without LTC	If the insured dies before LTC is diagnosed	100,000 USD

## Second Generation of LTC in Korea - Accelerated type Product (2)

- Target Market: Product more suitable for younger lives
- Underwriting approach closer to the approach for standard life products
- Additional premiums for acceleration feature are usually reasonable
- Rate guarantees are feasible under certain conditions (e.g. decreasing sum at risk pattern, cap on LTC benefits)

## Second Generation of LTC in Korea - Accelerated type Product (3)

Monthly Net Premium	Accelerated LTC Whole life	Whole life	Accelerated LTC Whole life vs. Whole life
Male 30	\$ 104	\$ 95	109%
Male 40	\$ 158	\$ 143	110%
Male 50	\$ 240	\$ 214	112%
Female 30	\$ 82	\$ 67	122%
Female 40	\$ 124	\$ 101	123%
Female 50	\$ 188	\$ 152	124%

- Payment Period: 20 years
- Waiver of Premium: The insured is diagnosed as LTC

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# Public LTC Scheme in Korea (1)

- Schedule : launch at July 2008
  - Social Insurance style (pay-as-you-go financing)
- Applicant
  - People older than 65 years of age
  - People under the age of 65 suffering from senile diseases
- Eligible People
  - People who find it difficult to lead his/her Daily Life alone for more than 6 months
  - If the insured is assessed as Grade 1 (Most Severe) ~ Grade 3 (Moderate) by Assessor.

# Public LTC Scheme in Korea (2)

- Type of Allowances
  - Home care allowances
  - Facility allowances (Nursing Home)
  - Special allowances in cash
- Financing
  - Public LTCL premiums + government subsidies + patient's share of expenses
  - Patient's share: 20% for facility allowances and 15% for home care allowances

# Public LTC Scheme in Korea – Limitation (1)

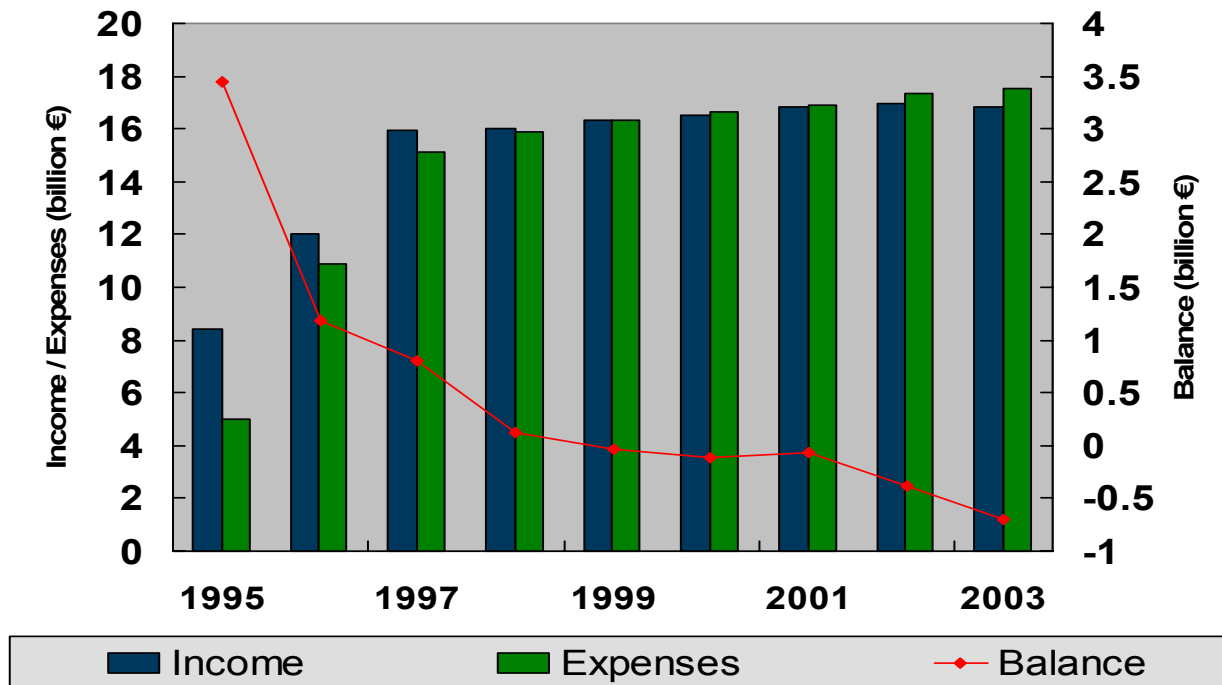
- Absent of cash value
- Benefit might not be enough to cover the LTC expense
  - German LTC Scheme Case

Benefit		Public LTC Scheme maximum Benefit (monthly/Euro)			Actual expense (monthly/Euro)		
		Care I	Care II	Care III	Care I	Care II	Care III
Grade							
Home Care Allowance	Cash benefit	205	410	665	2,300~3,000		
	Cost Reimbursement	384	921	1,432			
Facility allowances	Cost Reimbursement	1,023	1,279	1,432	1,500	3,000	4,000

Source: German Statistical Office

# Public LTC Scheme in Korea – Limitation (2)

- Financial Burden
  - German LTC Scheme has been losing money for 7 consecutive years



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# Opportunity - German Case

## Increase of knowledge about LTC needs

- After Germany launched a Public LTC scheme in 1994, the sales volume of Private LTC increased.
- There was also a jump in new business in 1992. The reason is that LTC problems were heavily discussed in public prior to the launch of the Public Scheme.

Year	Number of policies (unit: 1,000 )	Year	Number of policies (unit: 1,000 )
1985	10	1996	405
1986	26	1997	412
1987	46	1998	543
1988	54	1999	570
1989	76	2000	605
1990	103	2001	656
1991	133	2002	690
<b>1992</b>	<b>195</b>	2003	750
<b>1993</b>	<b>198</b>	2004	787
<b>1994</b>	<b>316</b>	2005	852
<b>1995</b>	<b>380</b>		

Source: GDV, Statistical Yearbook of German Insurance 2006. Table 39. Business in force in Health insurance

# Opportunity-German Case

## Limitation of Public Scheme and cost increase

- Benefit is not enough in Public Scheme.
  - Difference between actual expense and maximum benefit of public LTC is every monthly 1,000 Euro~1,500 Euro(1,300 USD ~ 2,000 USD)
- Financial Burden
  - People can not rely on Public scheme
  - People do not believe in the guarantee of the LTC benefit in future
- LTC cost increase can exceed general inflation
  - People buy private LTC to prepare for the increasing cost

Increasing ratio	Home Care	Facility care	Consumer price index
2000 vs. 2003	23.3%	15.3%	4.2%

Source: German Statistical Office

# Opportunity-German Case

## Traditional target groups are diminishing

- Economic weight of elderly people is increasing
  - Elderly people have the economic power
- Traditional target groups are diminishing
  - If company focuses on traditional target group only then the market share will decrease.

# Future Long-term care product: Stand-Alone type Product for Elderly people

- Stand-Alone Type LTC products tailored to the needs of elderly people
  - Whole life cover of LTC annuity
  - No Death benefit
  - No survival benefit (Except annuity)
  - No Surrender Value
- Premium will be cheaper than first generation of LTC product in Korea

Premium	Death Benefit	No Death Benefit Surrender Value	No Death benefit No Surrender Value
male 50	\$ 76	\$ 54	\$ 43
Male 60	\$ 111	\$ 83	\$ 73
male 70	\$ 166	\$ 135	\$ 128
Female 50	\$ 104	\$ 84	\$ 66
Female 60	\$ 151	\$ 123	\$ 105
Female 70	\$ 218	\$ 185	\$ 170

# Future Long-term care product: Joint Life Accelerated type Product (1)

## Coverage

Name	Detail	Benefit
LTC Diagnosis	First person dies or is diagnosed as LTC and then second person is diagnosed as LTC	20,000 USD
LTC Annuity	First person dies or is diagnosed as LTC. Then second person is diagnosed as LTC and as long as he/she is alive.	8,000 USD (maximum 10 years)
Death while receiving LTC annuity	First person dies or is diagnosed as LTC and then second person dies while receiving LTC annuity	100,000 USD- 20,000USD – Paid LTC annuity
Death without LTC	First person dies or is diagnosed as LTC and then second person dies without LTC	100,000 USD

# Future Long-term care product: Joint Life Accelerated type Product (2)

- Advantage
  - When LTC need is really necessary, the benefit will be paid
  - Cheap Premium
  - Females can specially be covered, when the spouse died or has already suffered from LTC

Net Premium	Accelerated LTC product	Joint Life Accelerated LTC product
Male 40	\$ 158	-
Female 35	\$ 101	-
Total Premium	\$ 259	\$ 145

# Future Long-term care product: Joint Life Stand-Alone type Product (1)

## Coverage

	Name	Detail	Benefit
When the first person dies	LTC Diagnosis	When second person is diagnosed as LTC	5,000 USD
	LTC Annuity	When second person is diagnosed as LTC and as long as he/she survives	10,000 USD (whole life)
When the first person was diagnosed as LTC	LTC Diagnosis	When second person is diagnosed from LTC	5,000 USD
	LTC Annuity	Until both people die, the LTC annuity will be paid	10,000 USD (whole life)

# Future Long-term care product: Joint Life Stand-Alone type Product (2)

- Advantage
  - When LTC need is really necessary, the benefit will be paid
  - Cheaper Premium
  - Females can specially be covered, when the spouse died or has already suffered from LTC
  - LTC annuity will be paid until both people die

# Future Long-term care product: CI + LTC Accelerated type Product (1)

- The other Asian countries contain LTC as one of the Critical Illnesses
- This concept is new in Korea
- Advantage
  - Easiest way to cover LTC
  - Marketability
  - Addition premium is very low if compared with CI premium

	<i>Hong Kong (of 14 co's)</i>	<i>Malaysia (of 9 co's)</i>	<i>Singapore (of 7 co's)</i>	<i>Overall (of 30 co's)</i>
Long Term Care	1	0	0	1
...				
Loss of Independent Existence or Brain Damage	9	6	0	15

Source: Gen Re, Dread Disease Survey 2003, Hong Kong, Malaysia and Singapore

# Future Long-term care product: CI + LTC Accelerated type Product (2)

Detail	Benefit
CI diagnosis	\$ 80,000
LTC diagnosis	\$ 20,000
LTC annuity	\$ 8,000 per year (Max. 10 year)
Death after CI diagnosis	\$ 20,000
Death while receiving LTC annuity	\$100,000-\$20,000- Paid LTC annuity
Death without LTC or CI	\$100,000

Premium	CI	CI+LTC
male 30	\$ 145	\$ 152
Male 40	\$ 221	\$ 233
Male 50	\$ 342	\$ 366
Female 30	\$ 104	\$ 113
Female 40	\$ 153	\$ 168
Female 50	\$ 222	\$ 247

# Use Definition of Public LTC Scheme

- Life insurance companies and Non-life insurance companies are currently using their own LTC definition which is based on ADLs.
- When Public LTC scheme is launched, we can provide the LTC product using the same definition as the public LTC scheme
  - Concerns
    - Claims assessment
    - Influence of social law and corresponding jurisdiction

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# Conclusion

- There are LTC needs in Korea
- Public LTC scheme will extend the private LTC market.
- Limitation of Public LTC scheme is the great marketing opportunity for private LTC coverage.
- Future LTC products will give the insurers good clues or hints for which direction they should go.

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**Thank you for your attention!**