

Past, present, and future of private LTC insurance

-Introduction of public LTC insurance - Challenge or opportunity?

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Abstract

For the past 50 years, Korea has witnessed repeated high growth, quantitatively and qualitatively speaking. It is currently advancing to an aged society at a fast rate, having joined the ranks of countries entering the aging society in 2000. Similar to what advanced countries that entered the aged society had gone through, Korea is also experiencing “demographic changes” such as increase in life expectancy and reduced birth rate as well as “social changes” wherein the number of women participating in public affairs increased.

In keeping with such rapid changes, large life insurance companies in Korea have developed “private LTC products” since 2003. Initially, they sold “stand-alone type products (first-generation LTC insurance)” that pay the cost of diagnosed benefit and annuity in case the need for LTC occurs; beginning early 2007, however, they started selling the “accelerated-type LTC insurance (second-generation LTC insurance)” that prepays death benefits in case the need for LTC occurs.

Just when the private LTC insurance market was making progress in such manner, the Korean government decided to introduce the “public LTC scheme (public LTC scheme)”. Expected to be implemented in full-scale starting July 2008, the public LTC insurance takes the form of social insurance as in the case of Germany and Japan and carries characteristics similar to those of social insurance in the two countries.

The key theme of this paper is the answer to the question “Do we still need private LTC insurance when the public LTC scheme will be introduced?”. The characteristics, prospects, and limitations of the public LTC scheme shall be examined by taking a look at the cases of foreign countries to determine whether the introduction of the public LTC scheme will spell a challenge or an opportunity for the private LTC insurance market.

In addition, we shall attempt to find answers to the question “What will be the future of private LTC insurance?”. In other words, we shall examine what type of private LTC insurance will be developed anew in a situation wherein the public LTC scheme exists and how to expand the LTC insurance market by maintaining complementary ties with the public LTC scheme.

Some examples of future products include the stand-alone LTC insurance, which was adjusted to suit the needs of elderly people, or the LTC insurance that mainly targets women (e.g., joint life LTC insurance) and so on.

Contents

1	Why Korea needs LTC insurance	3
2	What is the current status of Korea's private LTC Insurance?	7
2.1	First-generation LTC insurance	7
2.2	Second-generation LTC insurance.....	9
3	Government's introduction of the public LTC scheme: challenge or opportunity?	12
3.1	New challenge - government's introduction of public LTC scheme	12
3.2	Characteristics of the public LTC scheme.....	12
3.3	Limitations of the public LTC scheme	17
4	Future of private LTC insurance: new opportunities and possibilities	20
4.1	Prospects of private LTC insurance	20
4.2	Where should they go? (Development of new products).....	22
5	Conclusion	27
6	Reference	28

1 Why Korea needs LTC insurance

In 2000, Korea officially became an aging society (a society wherein more than 7% of the population is aged 65 years or older). Later, it became an aged society (a society wherein more than 14% of the population is aged 65 years or older) at a rate faster than any other country. Thus, Korea is experiencing demographic and social changes that had already been experienced by Western European countries such as Germany (18.8%), France (16.6%), and Italy (20.0%).

Increased life expectancy

For the past 50 years, life expectancy in countries around the world including Korea has increased by approximately 30%~90%, thanks to the development of medical technologies.

Table 1 Past Trend and Projection of Life Expectancy in selected Asian countries - male

Year	World	Developed Regions	Asia	Korea
1950-1955	45.0	63.5	40.4	46.0
1975-1980	58.5	68.5	58.3	61.3
2000-2005	63.9	71.9	65.8	73.5
2025-2030	69.6	76.5	71.9	77.8
2045-2050	73.1	79.4	75.2	79.9
1950 ~1955 vs. 2000~2005 Increasing ratio	42.0%	13.2%	62.9%	59.8%

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

Table 2 Past Trend and Projection of Life Expectancy in selected Asian countries - female

Year	World	Developed Regions	Asia	Korea
1950-1955	47.8	68.6	41.7	49.0
1975-1980	62	75.8	59.9	68.5
2000-2005	68.3	79.3	69.4	80.6
2025-2030	74.3	83	76.4	85.0
2045-2050	77.8	85.4	79.7	87.1
1950 ~1955 vs. 2000~2005 Increasing ratio	42.9%	15.6%	66.4%	64.5%

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

The increase in life expectancy is caused by the mortality improvement effect. According to the Life Table of Korean People¹, mortality for 2005 compared to that of 1997 was 68.8% for males and 69.9% for females. This indicates that mortality has decreased by approximately 30% for the past 8 years. This in turn means that more people will live up to the age requiring long-term care.

Decrease in total fertility rate

“Total fertility rate” refers to the total number of babies delivered by a female during the fertile period. Korea’s fertility rate for 2006 (per female aged 15~49) was 1.13. This figure is actually lower than that of other countries except Hong Kong.

Table 3 Total Fertility Rate in Asia

Period	china	Hong Kong	India	Japan	Malaysia	Singapore	Korea
1950-1955	6.22	4.44	5.91	2.75	6.83	6.40	-
1975-1980	3.32	2.32	4.89	1.81	4.16	1.87	2.99
2000-2005	1.70	0.94	3.11	1.29	2.87	1.35	1.08(2005)
2005-2010	1.73	0.97	2.81	1.27	2.60	1.26	1.13(2006)

Source: UN, World Population Prospects: the 2006 Revision (medium variant), 2007, Korean data: Korean National Statistical Office (2007)

Beyond a future reduction in population, a decrease in fertility rate also means that there will be not be enough children who can take care of the many elderly people requiring long-term care in the future.

The “Survey on elderly people desiring long-term care and policy plan²” announced in 2001 by the Ministry of Health and Welfare contains the results of the surveys conducted to determine the characteristics of a family member nursing an elderly male falling in at least 7 categories related to the Activities of Daily Living³ (ADLs). Interestingly enough, most elderly men were nursed by their spouses (75.2%), whereas the percentage of elderly women being cared for by their spouses showed an abrupt decrease (9%). On the other hand, the percentage of elderly women nursed by

¹ Life Table (1997~2005) issued by the Korean National Statistics Office

² ‘Survey on elderly people desiring long-term care and policy plan’ issued in December 2001 by the Ministry of Health and Welfare

³ Dressing, washing face, taking a bath, eating, moving, using the toilet, and continence

their daughters-in-law and children increased rapidly. This indicates that women rely on their children for nursing more than men do.

Considering the high average life expectancy of women, elderly men will most likely die earlier than women. This seems to be the reason for the rapid decrease in the percentage of elderly women being cared for by their spouses.

Therefore, the decrease in the number of children owing to the reduction in fertility rate will seriously affect the long-term care of elderly widows rather than that of elderly widowers.

Table 4 Characteristics of family care persons according to sex of elderly people

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, Survey on elderly people desiring long-term care and policy plan (Table 3-5-6) p.267, 2001.12

Decrease in marriage rate and increase in divorce rate

The marriage rate among Korean people has continuously dropped due to the country's rapid industrialization and women's participation in public affairs. Moreover, the divorce rate is increasing rapidly.

Table 5 Trend of marriage rates and divorce rates

Year(Per 1,000 persons)	1970	1980	1990	2000	2006
Marriage rate	9.2	10.6	9.3	7.0	6.5
Divorce rate	0.4	0.6	1.1	2.5	2.6

Source: Korean National Statistical Office

According to the Ministry of Health and Welfare's "survey on elderly people desiring long-term care and policy plan", approximately 50.9% of elderly people requiring long-term care were nursed by their family members.

This indicates that most elderly people requiring long-term care are nursed by their family members even now.

Table 6 Percentage of Family care according to household type

Household type	Family care	Non-family care	Non-Care
Total	50.9%	23.1%	26.0%
The old who live alone	12.1%	49.5%	38.4%
The old who live with spouse	52.4%	20.7%	26.9%
The old who live with children	66.6%	12.4%	21.1%

Source: Ministry of Health and Welfare, Survey on elderly people desiring long-term care and policy plan (Table 3-5-1) p.267, 2001.12

Considering the elderly people living alone as a result of the reduced marriage rate and increased divorce rate and the elderly widows and widowers living alone without any children, however, trends in nursing each type of elderly people living alone as shown in the table above are expected to increase. In other words, it is very likely that many elderly people will be cared for by institutions or persons other than family members in the future.

According to the announcement made by the National Statistics Office, however, the percentage of households occupied by the elderly living alone is actually increasing continuously.

Table 7 Number and Ratio of the old who live alone and more than age 65⁴

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, 2007

Participation of women in public affairs

According to the Ministry of Health and Welfare's analysis of elderly people cared for by family members, approximately 76% or more of persons nursing elderly people regardless of gender were women. This indicates that the obligation to support the elderly as traditionally fulfilled by women is still imposed on women even now.

In a situation wherein more women are expected to participate in public affairs, however, women are not likely to be able to fulfill such roles continuously.

⁴ <http://blog.daum.net/ty0754/12501731> (National Health insurance corporation: Tong Young branch)

Table 8 Characteristics of family care persons according to sex of elderly people

Sex	Spouse	Son	Daughter in-law	Daughter	Other family	Ratio of Female
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, Survey on elderly people desiring long-term care and policy plan (Table 3-5-6) p.267, 2001.12

2 What is the current status of Korea’s private LTC Insurance?

As demographic and social circumstances mature, private LTC insurance products have been developed and sold in Korea since 2003 particularly by large companies. Depending on the type of payments, insurance can be divided into the “first-generation LTC insurance” developed as a “stand-alone type product” and “second-generation LTC insurance” developed as an “accelerated-type product.”

2.1 First-generation LTC insurance

Large Korean life insurance companies developed the LTC insurance for the first time in 2003, covering the disorders of Activities of Daily Living (ADLs) and dementia.

Coverage

The type of the first LTC insurance developed consists of the LTC diagnosis benefit when the need for LTC occurs and the LTC annuity paid to patients requiring LTC in case they survive. This is called the stand-alone type product.

To satisfy the insurance regulation⁵ of Korea, this policy was planned in a form that pays the policy reserve in case the patient passes away without requiring LTC.

The details below show the common coverage provided by life insurance companies. Some companies added various kinds of surviving benefits to the coverage, e.g., surviving insurance benefits paid when the patient lives for a specified period after LTC is diagnosed or in case the patient survives without requiring LTC.

⁵ Article 7-60 (General Standards for Insurance Product Design) of the Regulation on the Supervision of the Insurance Business

1. Insurance benefits paid upon the death of the insured shall be greater than the surrender value and premiums paid; note, however, that this provision may not apply after the commencement of annuity payment in case of annuity.

Table 9 First Generation of LTC in Korea (Stand-alone type LTC)

Coverge	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)
Death without LTC	If the insured dies before LTC is diagnosed	Reserve

Target Market

Designed for old age groups, this product is a policy that can be sold only to the insured aged 40 years or older.

In examining the in-force policies of large companies, the average attained age was about 52 for both male and female. 32.7% of in-force policies are owned by male and 67.3% of in-force policies are owned by female⁶.

Underwriting

Since this product is sold to the elderly, the first-generation LTC insurance designed as a stand-alone type product undergoes a strict process of LTC-related underwriting prior to selling.

Premiums

The premiums of the first-generation, stand-alone type product have been set at a high level due to the “Koreanized coverage.” Specifically, the premiums have been developed to be more expensive than necessary due to the setting of death benefits wherein the policy reserve is paid and as a result of a variety of survival benefits.

A well-known theory is that the high premiums of health insurance give rise to anti-selection. This means that the policyholders who maintain insurance policies despite the high premiums are on average likely to experience worse health conditions than policyholder who terminated policies. Therefore, the expensive premiums of health insurance translate into a lower possibility that policyholders become an insurance group with good health condition. This may be a reason for the lackluster efforts of insurance companies to sell the product.

Existence of surrender value

⁶ A Life insurance company, standard : end of August 2006

Suppose the difficulty of paying premiums arises in both healthy and unhealthy persons. The existence of the surrender value in this situation causes the results of the selection to vary depending on the state of health of the insured.

In other words, well-known anti-selection theory stipulates that the probability that an unhealthy person will not cancel is lower than the probability that a healthy person will not cancel because the need for cash in the form of the surrender value is lower than the need for insurance coverage.

Some countries do not require the establishment of surrender benefits for Health insurance policies. Under the Korean insurance regulation, however, no insurance can be designed unless a surrender value is established.

The existence of the surrender value not only increases anti-selection; it also serves as one of the causes of the expensive premiums.

Non-guaranteed rate

The concept of non-guaranteed rate was first introduced in Korea with the introduction of first-generation LTC insurance.

Still, this entirely new system about Non-guaranteed rate in Korea not only made explaining the product to the elderly policyholder difficult; such newness of the product also reduced preference. Nonetheless, Korea's life insurance companies continuously implement the non-guaranteed rate for coverage related to diseases to manage risks effectively. This is expected to be the trend among life insurance companies in the future.

Agency channel

Usually, products were sold through agency channels due to the characteristics of the products, i.e., undergoing the strict process of underwriting prior to selling. Note, however, that the age difference between the agents and policyholders made selling products even more difficult.

Sales volume

The sales volume of the first-generation LTC insurance is disappointing. The number of policies sold does not exceed 1,000 cases per month even in case of large companies. Overall, the sales volume of stand-alone type products is considered to be very low.

2.2 Second-generation LTC insurance

In a situation wherein the first-generation LTC insurance market is shrinking due to poor sales resulting from expensive premiums and low recognition level, accelerated-type LTC insurance was introduced in the Korean market.

As the name suggests, the accelerated-type LTC insurance is a type of whole life insurance that provides death coverage such that the death benefit is prepaid in case the need for LTC occurs.

Coverage

Insurance benefits are designed such that benefits are prepaid in case the need for LTC occurs, which the basic coverage is whole life insurance.

This is a type of insurance wherein the attractiveness was heightened by adding LTC support corresponding to old age security to young policyholders carrying the requirements of whole life insurance.

Table 10 Second Generation of LTC in Korea (Accelerated Type LTC whole life)

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	8,000 USD (maximum 10 years)
Death while receiving LTC annuity	If the insured dies while receiving LTC annuity benefits	100,000 USD-20,000 USD – Paid LTC annuity
Death without LTC	If the insured dies before LTC is diagnosed	100,000 USD

Target Market and underwriting

The insurance age is 30~60 years; this is almost similar to the selling age of whole life insurance. Since the selling targets are some young age groups, underwriting can be executed at the same level as that of whole life insurance.

Premiums⁷

Since the major target market is the young age group, which requires whole life insurance, good sales are expected because LTC is guaranteed if specified premiums are added to the general whole life insurance.

⁷ Premium calculation Assumption in this paper

- Mortality rate: 5th mortality of KIDI
- Interest rate : 4.5%
- LTC incident rate and mortality rate after LTC incident : Gen Re Pricing Rate
- Insurance period: Whold life
- Payment period: 20year (Monthly Payment)
- Waiver of premium : when the insured is diagnosed as LTC
- Lapse ratio: 3%(during payment period) 0%(other period)

Table 11 Comparison of net premium between Normal whole life and Accelerated Type (Standard: sum insured 100,000 USD)

Montlyly 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%

Since the effects of increasing premiums based on pure long-term care coverage and waiver of premiums are considered as a whole, premiums appeared to have increased by approximately 10%~20%.

Existence of surrender value

The second-generation insurance was also developed as a product with a surrender value.

Guaranteed rate

LTC insurance in general has developed based on a non-guaranteed rate in many countries owing to the volatility of the LTC rate. Note, however, that the situation may be different in case the product is developed as accelerated-type LTC insurance.

Since the reserve of whole life insurance accumulates continuously over time, the sum at risks is reduced on a gradual basis. The lower sum at risks in turn reduces the company risks vis-à-vis the possible serious deterioration of LTC in the future.

The continuously improved mortality also plays a role in reducing company risks.

This in turn means that the sum at risk is gradually being reduced. Likewise, the effects of decreasing mortality and the design which maximum LTC benefit is set as sum insured makes guaranteeing risk rates for LTC accelerated-type products feasible.

Since policyholders in general prefer guaranteed risk rate, the product is expected to contribute to the improvement of sales power.

Agency channels

Compared to the stand-alone type products designed for old age groups, agencies find it easier to approach and persuade customers because the product is intended for relatively young age groups.

Market situation

Even in the US, interest in the accelerated-type LTC product is on the rise⁸. Accelerated-type products were presented at the 2007 SOA Life Spring Meeting and Health Spring Meeting in response to the interest in accelerated-type products.

3 Government's introduction of the public LTC scheme: challenge or opportunity?

3.1 New challenge - government's introduction of public LTC scheme

Korea plans to start the full-scale operation of the public "long-term care insurance scheme for elderly people (hereinafter referred to as public LTC scheme) starting July 2008. Article 1 (Purpose) of the Act on Long-term Care for the Elderly serves as the legal basis for the government's decision to introduce the public LTC scheme as one of the forms of public social insurance.

In other words, the purpose is to support the physical activities or household works involving elderly people experiencing difficulty in leading their day-to-day lives alone due to old age or senility-related diseases and to improve the quality of national life by promoting health and living stability in old age; thus reducing the burden on the part of family members.

3.2 Characteristics of the public LTC scheme

Scheduled to be introduced in full-scale starting July 2008, the public LTC scheme is a form of social insurance. Aside from Korea, countries that have introduced the public LTC scheme as social insurance include Germany and Japan.

Applicant to request for medical benefits

Applicants to apply for Korea's public LTC benefits are seniors aged 65 years or older and those aged 64 years or less and afflicted with senility-related diseases (dementia, cerebrovascular diseases, Parkinson's disease, and other related diseases).

⁸ Lisa Hayes, Long-Term Care Combination Product, SOA life Spring Meeting, 2007.

Carl Friedrich and Wenjie Xue, LTC Combination Product, SOA Health Spring Meeting, 2007

In the case of Germany, LTC is not limited to elderly people; all the people including children can apply for LTC.

On the other hand, LTC in Japan is limited to elderly people aged 65 years or older and adults aged 40~65 and afflicted with senility-related diseases (dementia, cerebrovascular diseases, and other related diseases).

Persons eligible for medical benefits

Under Korea's public LTC scheme, the Rating Committee examines any elderly person applying for LTC benefits. If the applicant is considered continuously unable to lead daily life alone for 6 months or more, the Committee classifies the symptom as grade 1 (Serious) to grade 3 (Moderate) based on the physical and mental states and degree of long-term care required. For elderly people classified as Grades 1~3, the government shoulders their medical expenses according to the standard medical fees prescribed by each grade.

Even though the Enforcement Decree of the Act on Long-term Care for the Elderly announced in June 2007 does not clearly define the rating criteria, grade 1~3 levels are defined as follows according to the data released by the Ministry of Health and Welfare:

Table 12 Symptoms by grade in Korea Public LTC

	Care Grade 1 (Severest)	Care Grade 2 (Severe)	Care Grade 3 (Moderate)
Symptoms	<ul style="list-style-type: none"> • The patient remains lying down all day long and cannot move independently. • The patient needs total help from other persons in daily activities such as eating, excrement and wearing clothing. 	<ul style="list-style-type: none"> • The patient uses wheelchairs but cannot keep sitting posture. • The patient needs total help from other persons in daily activities such as eating, excrement and wearing clothing. • The patient in many cases spends most of the time lying on the bed. 	<ul style="list-style-type: none"> • The patient needs partial help from other persons in daily activities such as eating, excrement and wearing clothing. • The patient can go out only with the help of other persons.
Results of examination	<ul style="list-style-type: none"> • The patient needs total help in more than 6 items of ADL including the changing of body position, eating or sitting down. 	<ul style="list-style-type: none"> • The patient needs help in more than 5 items of ADL such as eating, sitting down, washing face or brushing teeth. 	<ul style="list-style-type: none"> • The patient needs partial help for 3~5 items of ADL in brushing teeth, washing face, etc.

Source: Ministry of health and Welfare, Long term care Policy team, Key Contents of Enforcement Decree and Enforcement Regulation of the Act on Long-term Care Insurance for the Elderly, June 2007

In the case of Germany, persons continuously requiring the assistance of other persons in leading their day-to-day lives for at least 6 months due to physical, mental, or emotional diseases are considered to be those requiring care⁹ among those (including children) applying for LTC benefits. Medical benefits are then paid to those assigned to grade 1 category (persons requiring definite care) up to grade 3 (persons requiring care due to serious symptoms) following an evaluation of the symptoms.

Table 13 Symptoms by grade in Germany Public LTC

	Care level I (Morderate)	Care level II (Severe)	Care level III (Severest)
Care required	At least 1 time per day, the order person's help is necessary	At least 3 time per day, the order person's help is necessary	Permanent, also at night , the other person's help is necessary
Help Duration per day	At least 90Min.	At least 3 hours	At least 5 hours.
Help Duration for ADLs per day	At least 45 Min.	At least 2 hours	At least 4 hours

In the case of Japan, persons continuously requiring care for a specified period covering all or part of the daily activities are considered to be eligible for medical benefits from among those applying for benefits¹⁰. The symptoms requiring care are classified into 6 stages from simple infirmity to the serious level.

Types of benefits

In general, a person receiving a rating of Grade 1 up to Grade 3 is eligible for home care benefits and/or nursing home benefits.

In case a person is cared for by his/her family members in an unavoidable situation, i.e., no medical facilities are available in the island or remote area where the patient resides, cash benefits (special cash system) may be supported. Note, however, that this is an exceptional case; in Korea, the scheme can be said to be a system that provides home care benefits and nursing home benefits in most cases.

⁹ Article 14 of Germany's LTC insurance Act

¹⁰ Article 7 (definition) of Japan's LTC Insurance Act:

No cash benefits are paid in case a caregiver is selected by the family or by the patient as in Japan. In Germany, however, a person may apply for and receive cash benefits instead of home care benefits for the caregiver selected by the patient. The patient may also receive cash benefits and home care benefits in combination.

Principle of providing home care benefits

Article 3 of the Act on LTC Insurance for Elderly People prescribes the basic principle of providing LTC benefits. Clause 2 reads thus: “For LTC benefits, home care benefits wherein patients receives LTC at home while living with their families should be provided preferentially.”

Such principles are similarly prescribed in the laws of Germany and Japan. Specifically, Article 3 of Germany’s LTC Act stipulates that LTC insurance preferentially support home care benefits to enable the patient to remain continuously in the environment of his/her home for as long as possible or receive medical care from his/her own family or neighbors.” In fact, Germany prescribes nursing home care only if home health care is no longer possible.

On the other hand, Article 2 of Japan’s Care Insurance Act requires that appropriate measures be taken if the insured requires care to ensure that he/she can stay at home as much as possible and lead an independent daily life.”

Financing and out-of-pocket money

The funds required for the LTC insurance for elderly people consist of “LTC insurance premiums + Government subsidies + Out-of-pocket money.”

LTC insurance premiums are calculated by multiplying the health insurance premiums determined based on income by the LTC insurance premium rate.

The patient pays 20% of the nursing home benefits as out-of-pocket money or 15% of home care benefits. At this time, the amounts shall be decided based on the basic benefit amounts as decided in advance by the government by grade and by type of benefits.

Considering the out-of-pocket money proposed by the Ministry of Health and Welfare, expenses to be paid by the elderly people or their families can be considered to remain high.

Table 14 Expert Facility use

	Care Grade 1	Care Grade 2	Care Grade 3
Monthly Benefit	1,225,600 KRW	1,128,300 KRW	956,700 KRW
Monthly public scheme payment(80%)	980,480 KRW	902,640 KRW	765,360 KRW
Participation (20%)	245,120 KRW	225,660 KRW	191,340 KRW
Non-payable amount	200,000 KRW	200,000 KRW	200,000 KRW

Total out of pocket money (Containing excluding items)	445,120 KRW	425,660 KRW	391,340 KRW
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- Monthly benefits by grade to be decided based on the second model medical fees of LTC insurance
- Excluding items such as food materials, sanitary band, and hairdressing expenses amounting to KRW 200,000
- Announced on June 8, 2007
- 1,000 KRW ≙ 1 USD

Table 15 Home Care (Care Grade 1)

Grade 1	Service detail	Standare benefit(KRW)
Home Visiting treatment	- 120Min.×2 time per week Or 90Min.×3 times per week	420,640
Day and night care	2 time per week	260,880
Visiting bath	2 time per week	100,220
Visiting nurse	4 time per week	124,000
Total (* limit amount of month)	905,740 (* 975,120)	
Public Scheme payment(85%)	769,879	
Out of pocket monty(15%)	135,861	

Table 16 Home Care (Care Grade 2)

Grade 2	Service detail	Standare benefit(KRW)
Home Visiting treatment	- 120Min.×2 time per week Or 90Min.×3 times per week	344,160
Day and night care	2 time per week	210,240
Visiting bath	1 time per week	50,100
Visiting nurse	3 time per week	93,000
Total (* limit amount of month)	679,500 (* 796,260)	
Public Scheme payment(85%)	595,875	
Out of pocket monty(15%)	101,925	

Table 17 Home Care (Care Grade 3)

Grade 3	Service detail	Standare benefit(KRW)
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Home Visiting treatment	- 120Min.×1 time per week Or 90Min.×2 times per week	248,560
Day and night care	3 time per week	285,960
Visiting bath	1 time per week	50,100
Visiting nurse	2 time per week	62,000
Total (* limit amount of month)	646,620 원 (* 707,480 KRW)	
Public Scheme payment(85%)	549,627	
Out of pocket monty(15%)	96,993	

In the case of Japan, out-of-pocket money amounts to 10% of the standard insurance medical fees predetermined by the government by grade and by type of benefits. For Germany, however, out-of-pocket money is not required by the standard insurance medical fees.

Effective period of long-term care

The effective period of long-term care shall be 1 year; in case the symptom gets the same grade classification for 3 consecutive times or more, however, the effective period shall be 2 years.

The effective period as used herein means that the grade 1~3 classification assigned to the patient by the rating committee – which means that the patient is eligible for LTC - is applied only during the effective period, not continuously until the beneficiary dies. In other words, the patient should undergo a process of rating again thereafter and renew the classification.

Also the public LTC scheme operated by Germany and Japan has such effective period; the patient is reexamined for renewal after the effective period expires.

3.3 Limitations of the public LTC scheme

Even though it has yet to be executed, the public LTC scheme to be introduced in Korea already has many limitations.

Non-existence of cash benefits

Korea's public LTC scheme does not recognize cash benefits except in special cases. A person requiring long-term care should pay for the nurse he/she selected or for the medical care selected by his/her family in addition to the out-of-pocket money of nursing home benefits or home care benefits.

The public LTC scheme does not pay the appropriate level of cash compensation even as it is required for family members who have given up their economic activities to care for the patient.

Moreover there are not well infra-structures for care in Korea. This makes people still need cash benefit.

Medical fees designed for the minimum basic services

The medical fees established as LTC benefits refer to the fees for the minimum basic services. In case of an additional need for better services, additional expenses shall be incurred.

The public LTC scheme operated by all countries cannot fully satisfy the desire of persons requiring long-term care.

In describing the standard insurance medical fees paid by grade in Germany and the actual amounts used, there is a monthly difference of about Euro 1,000~1500 (KRW1.3~ 2 million) between the amount decided by insurance and the actual amount paid.

Table 18 Comparison of LTC cost between Public LTC scheme and Actual cost in Germany

	Benefit	Public LTC Scheme maximum Benefit (monthly/Euro)			Actual expense (monthly/Euro) ¹¹		
		Care I	Care II	Care III	Care I	Care II	Care III
Home Care	Cash benefit	205	410	665	1,500	3,000	4,000
	Cost reimbursement	384	921	1,432			
Facility Care	Cost reimbursement	1,023	1,279	1,432	2,300~3,000		

Source: German Statistical Office

Deteriorating financial structure

As a result of the demographic changes including the high life expectancy and low fertility rate, the percentage of Korea's elderly people is rapidly increasing. According to the estimated population in the future as announced by the Korea National

¹¹ Actual expense for Home case is calculated by professional home care : Gen Re, Ulrich Pasdika, Long Term Care insurance in Germany

Statistics Office, population aged 65 years or older will be more than 14.3% in 2018 and 20% by 2026. Whereas it will take approximately 20~30 years for the US, Japan, or Europe to shift from an aged society to a super-aged society¹², Korea will become a super-aged society in a span of 8 years.

According to Korea's estimated population in 2050, the percentage of the population aged 65 years or older will be 38.2%. This is more than double the world's average (16.2%) and approximately 1.5 times higher than other advanced countries (26.1%). In other words, half the population will be aged 56.7 years or older by 2050.

Table 19 Present and Projection of Population structure of World and Korea

	2005					2050				
	0-14	15-64	65+	80+	Total	0-14	15-64	65+	80+	Total
World	28.3	64.4	7.3	1.3	100.0	19.8	63.9	16.2	4.4	100.0
More Developed Regions	17.0	67.7	15.3	3.7	100.0	15.2	58.6	26.1	16.1	100.0
Less developed Regions	30.9	63.6	5.5	0.8	100.0	20.6	64.7	14.7	14.7	100.0
Asia	28.0	65.6	6.4	1.0	100.0	18.0	64.5	17.5	4.5	100.0
Korea	19.2	71.7	9.1	1.4	100.0	8.9	53.0	38.2	14.5	100.0

Source: Korean National Statistical Office, Population of World and Korea (Table 9), 2007.7
UN, World Population Prospects: the 2006 Revision (medium variant), 2007,

Table 20 Trend and projection of Mid. age in World and Korea

	1950	1975	2005	2050
World	23.9	22.4	28.0	38.1
Developed Regions	29.0	31.1	38.6	45.7
Less developed Regions	21.5	19.4	25.5	36.9
Asia	22.2	20.2	27.6	40.2
Korea	19.1	19.6	34.8	56.7

Source: Korean National Statistical Office, Population of World and Korea (Table 11), 2007.7

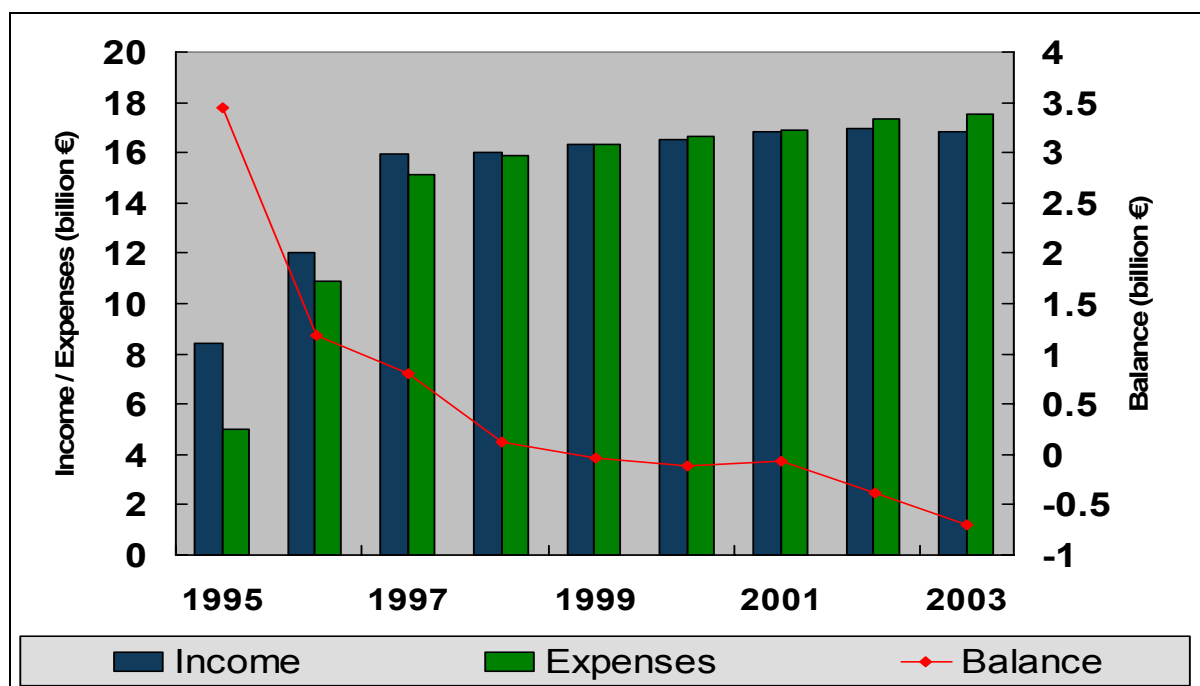
¹² UN defined: Ageing Society (population aged 65 years or older is more than 7%), Aged Society (population aged 65 years or older is more than 14%), Super-aged society (population aged 65 years or older is more than 20%)

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

Given such rapid transition of Korea to an aging society, and since the public LTC scheme is of the pay-as-you-go financing type, Korea will most likely face the financial problems that are currently being experienced by Germany or Japan, which had introduced the pay-as-you-go financing type at the same or even higher level.

The chart below shows the financial condition of Germany's public LTC scheme. Since home care benefits were introduced in 1994 and nursing home benefits in 1995, the public LTC scheme has continuously recorded deficits for 7 years after 1999. As such, the German government is preparing reforms in the public LTC scheme.

Figure 1 Financial Burden of German Public LTC scheme ¹³



4 Future of private LTC insurance: new opportunities and possibilities

4.1 Prospects of private LTC insurance

¹³ Gen Re, Ulrich Pasdika, Long Term Care insurance in Germany

What impacts will the public LTC scheme have on the private LTC insurance market? We look at the experience of Germany, which had introduced a public LTC scheme earlier than Korea, to answer this question.

Rise in recognition level

When the public LTC scheme was introduced by Germany in 1994, the sale of private LTC insurance increased. This was mainly attributed to the “effect of increasing recognition level.”

The table below shows the number of renewal policies of LTC insurance in Germany prior to and after the public LTC scheme was introduced in 1994.

Table 21 In-force business number of German Private LTC Insurance (Top-up of Public LTC scheme)

Year	Number(unit:1,000)	Year	Number(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
1992	195	2003	750
1993	198	2004	787
1994	316	2005	852
1995	380		

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

Note that the sale of private LTC insurance has continuously increased since 1994 and 1995 when the public LTC scheme was introduced.

The table above shows that the sale of LTC insurance increased in 1992 and 1993. This was a preparatory period for the introduction of the public LTC scheme. In fact, new contracts were believed to have increased because the social issue of LTC was frequently discussed during this period.

Limitations of the public LTC scheme

Since the public LTC scheme started in Germany, there have been many problems and limitations.

In particular, the standard medical fees designed for the minimum basic services guarantee only approximately 50% of the actual costs; the burden of paying for the additional 50% still rests on the person or his/her family.

In addition, the continuously deteriorating financial structure of the public LTC scheme for the past 7 years makes it difficult to judge whether people can rely on the public LTC scheme in future. Moreover, it seems likely that the government will reform the public LTC scheme, e.g. reducing the benefits and increasing the premiums.

Rise in the cost of LTC insurance

In the case of Germany, the rising costs of long-term care exceed the inflation rate. Specifically, the increase rate in the average expenses of a person requiring LTC between 2000 and 2003 is described below.

Such continuous increase in the actual cost encourages a person to buy private LTC insurance on top of the public LTC scheme.

Table 22 LTC Cost increasing Ratio

Classification	Home Care cost	Facility cost	Consumer price index
Cost increasing ration 2000 vs. 2003	23.3%	15.3%	4.2%

Source: German Statistical Office

Expansion of the market for elderly people

In Germany where the percentage of population aged 65 years and older is 18.8%, restricting the development to products intended for persons aged 20~50 years as the traditional target of insurance sale is difficult. Therefore, the development of products designed for elderly people aged 61 or older is being carried out actively.

As shown by Germany's cases, Korea's introduction of the public LTC scheme will most likely expand the private LTC insurance market.

In such situation, insurance companies agonize over how LTC insurance can create a new opportunity.

4.2 Where should they go? (Development of new products)

Development of Stand-Alone product meeting the needs of old age

The aging of the population translates into a decrease in the sale of insurance to persons aged 20~60 years as the targets of traditional insurance sale. LTC insurance

will most likely become essential for elderly people in their 60s or older in preparing for old age. And the economic power of elderly people is increasing.

The purpose of selling LTC insurance to elderly people can be classified into 2 types, one of which is the coverage of the initial expenses such as the expenses incurred in buying wheelchairs designed to help patients move or in repairing houses when a person is initially diagnosed as eligible for LTC.

The other one is the assurance of stabilized income to enable the patient to receive the help of other people continuously while he/she is alive after the need for LTC occurs.

To assure that such two needs are satisfied, the first-generation, stand-alone type LTC insurance was designed to pay the LTC diagnosis benefit and annuity after the need for LTC occurs.

Note, however, that there are two additional features that were included in the first-generation, stand-alone type products.

The first is the establishment of death benefits and various survival benefits that are not related to the two purposes described above and to the need of the LTC insurance purchaser. If these items are eliminated, products with cheaper premiums can be developed.

The other point is the annuity payment period after LTC is diagnosed. Currently, payment can be made for up to 10 years. According to Gen Re research, the life expectancy of LTC disable people in the case of Japan is approximately 4.89 for men and 5.38 for women. Therefore, the annuity payment period, which is up to 10 years, will not be a serious problem for the time being. However, since an increase in the life expectancy of those requiring LTC is likely owing to the progress that will have been made in medical technologies in the future, the insured will prefer products that pay LTC annuity throughout his/her entire life.

Under such circumstances, a product that can offer inexpensive premiums while satisfying the need of elderly people will be the next-generation product for old age groups.

In case the benefits wherein a death benefit and various survival benefits are eliminated, and if the product is designed to carry no surrender value, it is expected that premiums can be reduced considerably. The company can then provide LTC coverage to elderly people who cannot subscribe to insurance due to the expensive premiums even as they need insurance. In addition, the company can create stabilized insurance contract groups resulting from an increase in sales, thereby preventing the effects of anti-selection owing to surrender and expensive premiums.

Table 23 Future product: Stand-alone Type LTC insurance

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	10,000 USD per year (Whole life)

The following table shows the comparison of net premiums of LTC insurance between the LTC insurance that pays a reserve in case of death, the LTC insurance that does not pay a reserve in case of death, and the LTC insurance that pays neither a policy reserve nor the surrender value in case of death:

Table 24 Net premium Comparison of Stand-alone Type LTC

Monthly net premium	Death benefit as Reserve /Surrender value	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

Development of LTC insurance for elderly widows

According to a survey conducted on persons staying at nursing homes in the US¹⁴, most of the respondents were elderly widows (average age: 82).

As shown by the results of the analysis carried out on elderly people cared for by their family members in Korea, most of the males who needed nursing were cared for by their spouses (75.2%). Note, however, that the percentage of female cared for by their spouses was only 9%; most of them were nursed by their children. While reliance on spouses was high in the case of male, that on children was high in the case of female.

As times change, however, female who rely heavily on their children will not be able to find anyone for LTC; hence the need for female to make preparations for LTC in case their husbands passed away or in case they are already in a state wherein LTC is required.

¹⁴ Medicaid Department of the State of New York

Of course, such females may buy a standard LTC insurance policy. If a married couple applies for joint life LTC insurance for couples, however, both husband and wife can receive LTC services at far cheaper premiums.

The basic prerequisites of the joint life LTC insurance are that a married person takes care of his/her spouse when the spouse needs nursing, assuming both husband and wife are alive. If a healthy spouse needs nursing after the other spouse passes away or requires nursing, however, LTC benefits are paid.

The biggest merits of the joint life insurance are that insurance money is paid at the time it is needed the most, and that the premiums are cheapest.

In other words, compared to the case wherein each spouse buys a single life insurance, the premiums of the joint life insurance will be a lot cheaper.

The joint life LTC insurance can be developed in two types: Stand-alone type and Accelerated type.

Table 25 Join Life Accelerated Type LTC product

coverage	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 people is dies without LTC	100,000 USD

Table 26 Premium comparison between LTC Accelerated Type whole life and Joint life LTC Accelerated Type

Monthly net premium	Accelerated Type LTC	Joint-life Accelerated Type LTC
Male 40	\$ 158	-
Female 35	\$ 101	-
Total premium	\$ 259	\$ 145

Table 27 Joint life Stand alone LTC insurance

	Name	Detail	Benefit
When the	LTC	When second person is diagnosed as	5,000 USD

first person dies	Diagnosis	LTC	
	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)

The joint life stand-alone type LTC insurance as shown above was designed to guarantee the payment of LTC annuity until both husband and wife pass away.

Definition linked to the public LTC scheme used by LTC insurance

The definition of the private LTC insurance that is currently being sold in Korea is different from that of the public LTC scheme. Korea's private LTC insurance covers disorders in the activities of daily living (ADLs) as well as dementia.

Next-generation insurance types may link benefit payments to the definition of the public LTC scheme in Korea.

Still, even if benefits are linked to the benefit trigger of the public LTC scheme, it is advised that decisions whether a claim should be paid by private insurance should only be made after the insurance company carried out an independent claim investigation.

Products satisfying young age groups' desire for both Critical illness coverage and old age life coverage

One of the best selling products in Korea is the "Critical Illness Insurance," a policy designed such that death benefits are paid in advance in case the policyholder is diagnosed from a critical illness. LTC coverage may be inserted in the Critical illness.

Since critical illness mostly affects people in their 30s~50s, and the LTC coverage mostly targets people in their 60s or older, the product may carry merits as a single product that provides coverage for all age groups. The additional premium for this benefit is rather small.

Table 28 Accelerated Type LTC+CI whole life

Name	Detail	Benefit
CI Diagnosis	If the insured is diagnosed as CI	8,000 USD
Death after CI incident	If the insured dies after CI incident	20,000 USD

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	8,000 USD (maximum 10 years)
Death after LTC incident	If the insured dies while receiving LTC annuity benefits	100,000 USD- 20,000USD – Paid LTC annuity
Death without CI or LTC incident	If the insured dies before LTC or CI is diagnosed	100,000 USD

Table 29 comparison of net premium between CI product and LTC+CI product

Monthly net premium	CI Product	CI+LTC Product	Additional cost Percentage
Male 30	\$ 145	\$ 152	4.8%
Male 40	\$ 221	\$ 233	5.4%
Male 50	\$ 342	\$ 366	7.0%
Female 30	\$ 104	\$ 113	8.7%
Female 40	\$ 153	\$ 168	9.8%
Female 50	\$ 222	\$ 247	11.3%

5 Conclusion

The introduction of Korea's public LTC scheme will offer new opportunities to private LTC insurance due to the limitations of public LTC insurance, increased demand, and diversification together with the effects of rising recognition level. Taking an initiative in the LTC insurance market, which is expected to expand, requires insurance companies to fast track the development of new type of LTC insurance benefits that can satisfy the needs of customers.

The answer lies in the design of the benefits for the old age groups, design of joint life insurance for women with bigger needs for LTC insurance, products that use the definition linked with the public LTC scheme, and products that can satisfy the young age groups' desire for both disease coverage and old age life coverage.

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