Long Term Care Insurance:

A Survey of Providers' Attitudes

May 2013

Productive Ageing Centre

National Seniors Australia

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Foreword

The announcement of the Federal Government's "Living Longer, Living Better" aged care reform package in April 2012 has stimulated debate around potential mechanisms to fund long term care in Australia. With the considerable costs of long term care faced by many Australians, there is definite scope for the investigation of a range of methods for insuring against these costs that are used elsewhere in the world. One such mechanism is long term care insurance (LTCI), for which private markets are found in many countries, including the USA and France, but which little is known in the Australian context.

This research report entitled *Long Term Care Insurance: A Survey of Providers' Attitudes*, authored by Bridget Browne of the Research School of Finance, Actuarial Studies and Applied Statistics at the Australian National University, examines the potential of a LTCI market in Australia from the perspective of providers. It is based on a combination of anonymous email surveys and personal interviews of relevant senior officers of life insurers, life reinsurers and major financial services consultants active in the Australian market, as well as other interested parties. Among the issues examined are their attitudes to LTCI and the barriers to its implementation in Australia.

Overall, respondents indicated in-principle support for the development of LTCI in Australia, however they noted significant demand-side barriers to its establishment. These include uncertainty about the extent of consumer demand for such a product in Australia, especially given other risks to insure for and financial pressures faced by households for housing and retirement income. Respondents also expressed that providers such as themselves are unlikely to attempt to develop LTCI products until they are confident that government has laid necessary groundwork, because of many other failed attempts around the world.

This report provides other detailed information that informs not only the development of LTCI products in Australia, but context for the development of other insurance products.

Dr Tim Adair
Director
National Seniors Productive Ageing Centre

May 2013

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This report was written by Bridget Browne of the Research School of Finance, Actuarial Studies and Applied Statistics at the Australian National University.

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Long Term Care Insurance: A Survey of Providers' Attitudes

Introduction

Although the government covers most long term care outlay in Australia, the "Living Longer, Living Better" (LLLB) package of April 2012 confirmed that individuals who have the means will be required to contribute more to the cost of care than in the past (albeit with certain limits) (Australian Government, 2012).

The Productivity Commission Report "Caring for Older Australians", which informed the LLLB package, considered the issue of insurance for long term care, and concluded that there were many barriers to developing a viable insurance product, both from the demand and the supply-side (Productivity Commission, 2011). The report cited the barriers of difficulty predicting need, affordability, lack of incentives to insure, the long term nature of the risk and associated uncertainty, and the risk of adverse selection.

The needs of ageing people vary significantly as do the costs incurred in meeting those needs. Insurance is an appropriate strategy for dealing with uncertain costs that have uncertain timing, duration and indeed occurrence. Private voluntary LTCI exists in other countries, most notably in the US and France. In the US, the benefit is a reimbursement of approved expenses such as nursing home fees and care in the home. In France, a fixed cash benefit is paid, usually monthly, that can be used in any way the beneficiary chooses. The aim is to supplement regular income to cover the extra expenses incurred when aged care support is required.

There are many possible reasons for the lack of private Long Term Care Insurance (LTCI) in Australia, one of which is supply-side reluctance. To understand this issue in more detail, this project surveyed providers regarding their attitudes to LTCI in order to explore:

1. Why an insurance product has not developed in Australia to date;
2. Whether the introduction of the LLLB package, which introduces an increased user pays component to care costs for consumer, will change the likelihood that products will develop;
3. Whether increasing focus on the ageing population and the potential for financial services products adapted to this cohort of the population will change the likelihood that products will develop;
4. The appropriateness and adaptability of successful products from overseas for the Australian marketplace.

The remainder of this report includes the following sections: data and methods; summary of findings; conclusion; detailed results of the online survey; detailed results of the personal interviews; and an appendix.

Data and Methods

Participants were recruited mainly from the Life Board Committee of the Financial Services Council and the Life Insurance and Wealth Management Practice Committee of the Actuaries Institute. Relevant persons known by the researcher to have an interest or experience in the topic were also approached. This constituted an initial group of approximately 40 persons, with the desired representation of life insurers, life reinsurers, financial services providers and financial services consultants.

The online survey was designed and pilot tested, then launched in October 2012. The survey closed on 30 November 2013. Responses from 26 participants were received. Six participants agreed to a personal follow up interview. This response rate was in line with that anticipated by the research plan. The personal interviews were conducted during December 2012.

The participants in the personal interviews were all senior actuaries, representing insurers, reinsurers and academia, with broad experience in other areas including consulting. They were primarily Australian based. In general they agreed to participate because of their firmly held views regarding the importance of the issue of financing aged care into the future and the possible role insurance may play.

The online survey software tool SurveyMonkey was used for the online survey component. The personal interviews were recorded and subsequently transcribed. Analysis was performed using Microsoft Excel (for the online survey) and NVivo (for the personal interview transcripts).

The questions for the online survey and personal interviews are shown in the Appendix, found at productiveageing.com.au.

Summary of Findings

Cautious Optimism

Despite a fairly low level of awareness of aged care arrangements and the aged care reform currently underway, the research indicates an underlying level of in-principle support from the financial services industry for the development of LTCI in Australia, should the conditions be favourable.

Some views in the literature have stated that the risk is not suitable for private, voluntary insurance (Barr, 2010). However, this survey found that the financial services providers believe that on balance the risk is insurable. They also believe there is a financial need connected to long term care. Most respondents believe that this need will grow in the future due to demographic change, increasing awareness of long term care risk and the government's likely response to these issues, thus creating a more propitious environment for a private voluntary insurance product.

Seventy-three per cent of respondents (n=19) believe that a private, voluntary insurance product covering long term care needs could be a worthwhile product in the Australian context. International experience can provide valuable insight, but this is one of the most highly country specific insurance risks, due to the significant variation in public provision of aged care. Any insurance product must dovetail effectively with local practices.

Many respondents consider that there are already clear stresses on the supply of aged care services themselves, which could also be a contributing factor to the development of alternative means of financing these services, including via insurance mechanisms.

However, in spite of the apparent willingness of industry participants to support the development of an insurance product, their clear-sighted evaluation of the significant hurdles that would need to be overcome mean that any optimism should be cautious at best.

Recognition of Significant Hurdles

If a private, voluntary LTCI product does not exist in Australia today, there are likely to be valid reasons for this situation that would need to be addressed before a product became viable. The reasons examined in this survey will cover both the supply and the demand aspects.

The hurdles on the supply side (i.e. from the point of view of financial services providers themselves) include the technical, and design aspects, (such as, how the product would work, how it would meet the financial need effectively and also meet insurability criteria), through to the marketing side, (such as how to make the product appealing and appear good value for money). This component will be discussed more fully in the section "Supply-side barriers" on page 10.

However, as described in the section "Demand-side barriers" on page 12, it is the hurdles on the demand side that are most significant at the moment. Respondents point out that Australians in general are already underinsured. There was a strong sense that people just don't want to think about the risks associated with needing aged care and thus may even actively avoid thinking about the need to prepare for this risk financially. Furthermore, there is recognition that this risk is effectively last on a long list of life-course risks that could be insured or prepared for, and that individuals are under a lot of other financial pressures to provide for themselves and their families, for example with respect to housing, education and retirement income.

Australia already lacks a well-developed market for lifetime retirement income products, with issues on both the supply, but primarily on the demand side (somewhat different from those regarding LTCI), so it is clearly an additional challenge to address the next phase of life, post the early retirement years.

There is a high degree of scepticism regarding consumer demand expressed in both the online survey and the personal interviews. Respondents consider that this will remain low while the risk is regarded as expensive and complex to insure and too remote to act on now. In addition, a majority of respondents are in agreement with the view that many individuals may well believe that the State will provide for their aged care needs, hence there is no need to prepare financially oneself.

Respondents highlighted some challenging paradoxes on the dimensions of age and wealth. Firstly, respondents highlighted the age paradox, whereby older individuals may be more aware of the need for care in the near term, but it is too late to prepare financially; whereas younger individuals, who would have time to prepare financially, consider the risk too remote to be worth preparing for. Secondly, respondents also described the wealth paradox, which is where wealthier individuals, who could more easily afford insurance are also more likely to be able to fund care needs directly. Those with less means to fund care themselves are also less likely to find insurance affordable and are more likely to be fully covered by the State. While respondents are confident that demographic trends and policy directions are likely to be favourable to the potential for a market for private, voluntary LTCI to develop, they believe the lag will be significant.

Lastly, there was a return to the theme of the necessary conditions for a market to develop. The view was expressed that a single insurer couldn't initiate a market alone; that even the industry would be unlikely to act unilaterally. It may require a concerted effort from insurers, government and possibly also the aged care sector itself in order to generate the necessary awareness and momentum around the need to prepare for the possible costs of aged care services. This leads to the recognition that the government will need to play a significant role.

Role for Government

Similarly to healthcare, effective interaction between LTCI products and the government system is paramount. All insurance products need to interact with government regulation and the framework they are operating in. However the variety of systems for funding aged care internationally means that the variety of insurance products that have evolved to contribute to this funding is very wide: some countries have a social insurance system, some a private, voluntary market, and many have no insurance structure at all (Howse, 2007).

Beyond this challenge however, respondents called for government to be as clear as possible about what it can and can't provide in terms of services and funding – ideally over the long term. In addition, respondents saw a role for government to provide incentives to make an insurance product more attractive to individuals, possibly via taxation mechanisms. Some respondents went further and suggested that some form of compulsion may be necessary for an insurance market to develop, although this is perhaps unlikely in an Australian setting.

Lastly, respondents held the view that it is government's role to raise awareness of the risk of needing aged care, to educate the population regarding what government provision will be, and to do so in a positive way that highlights the option of making further provision against the risk on an individual basis, possibly via insurance.

The message from this research is that insurers are unlikely to attempt to develop an insurance product until they are confident that the necessary groundwork has been laid by government, as there have been too many previous attempts that have ended in costly failure in markets around the world.

There may be a place for a private, voluntary LTCI product in the Australian marketplace in the future. The research demonstrates that financial services providers support the concept in principle and believe that the general future trend will be favourable. However, there are many significant hurdles to be overcome and this will likely require concerted action from multiple stakeholders.

Conclusion

While this survey was targeted, and has elicited responses from those most interested in the topic, it represents only the personal views of the respondents, and is not a definitive or official industry or profession-wide view. The number of respondents is small, so care should be exercised in generalising any of the findings.

The product discussed currently does not exist in the Australian marketplace, so there are many hypothetical aspects to the discussion. Even a generally favourable view does not mean an LTCI product would definitely become available if the current barriers were all removed.

Nonetheless it is hoped that this study has provided valuable insight into the views of financial services providers regarding LTCI. It enhances our understanding of why LTCI has not been offered in the Australian marketplace to date. Respondent's views on the impact of the LLLB and the ageing population on the likely development of a market are synthesized and insightful comment was provided regarding the transferability of overseas experience to the Australian context.

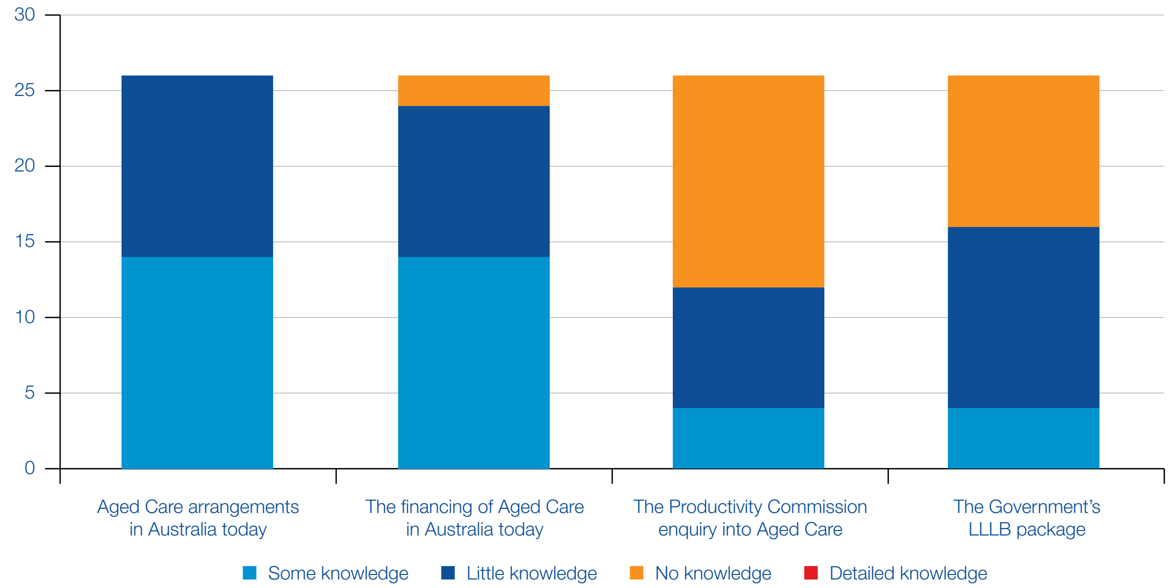
Detailed Results of the Online Survey

The following sections of the report discuss the detailed responses to the individual questions asked in the online survey.

Current Level of Knowledge of Aged Care and Aged Care Reform

As shown in the Appendix, the first question on the survey asks participants to rate their knowledge of aged care in Australia. Figure 1 shows the rating of participants' knowledge on the four areas relating to aged care.

Figure 1: *Level of knowledge of aged care and aged care reform: number of participants (n=26)*



Given that no insurance product exists in the aged care arena, awareness regarding the aged care system, its financing, and current reform efforts is unsurprisingly low.

Participants were targeted and yet it is clear that while they have some general knowledge, they have little specific knowledge of current research and policy. Their level of knowledge may only be slightly higher than that which might be expected in the general public[1], which in a sense is unsurprising given that there is little connection between the financial services industry in Australia today and the provision and financing of Aged Care. To a certain extent, this is a "chicken and egg" situation: until there is a product or service there will be little awareness, but until there is awareness, there is unlikely to be an associated product or service.

When asked to comment on the reasons for their level of knowledge (Question 2), this was evenly split between personal experience and reasons connected to their employment for those who had some knowledge. Many respondents commented that there was little focus on aged care in their business and that it lacked direct business relevance.

Awareness of Long Term Care Insurance

In contrast to this, when respondents were asked if they were aware of the existence of LTCI as a personal life insurance product which could contribute to financing aged care costs (Question 3), the response was overwhelmingly positive. Only one respondent was not aware. Those who indicated that they were aware of the existence of LTCI were asked to identify the countries in which it exists (Question 4). Table 1 below lists the countries identified by respondents.

[1] Indeed, in a recent survey (National Seniors Australia, 2011), the majority (54%) of National Seniors Members who responded had also not heard of the Productivity Commission's report, a very similar proportion to that observed here.

Table 1: *Countries in which LTCI currently exists*

Countries in which LTCI exists	Number of respondents
United States	19
United Kingdom	10
France	8
Germany	4
Singapore	3
Canada	3

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

This question was intentionally placed before the survey discussed specific markets, in order to test the unprompted recall of existing markets for LTCI. The high level of awareness for the United States was to be expected, as this is currently the largest private, voluntary LTCI market in the world, and the US is perhaps a market of reference for Australian financial services providers. This may have influenced the unexpectedly high positive response for the United Kingdom, when there is currently no product available on the market that can be fairly called LTCI. Products have been available in the past, but these have been withdrawn from sale.

France, currently the world's second largest market, was correctly identified by eight respondents. Other countries where LTCI currently exists were known to very few respondents. Many respondents commented that they were uncertain and one commented "*not aware of any major developed countries having successful ... LTC products*", which is a telling remark.

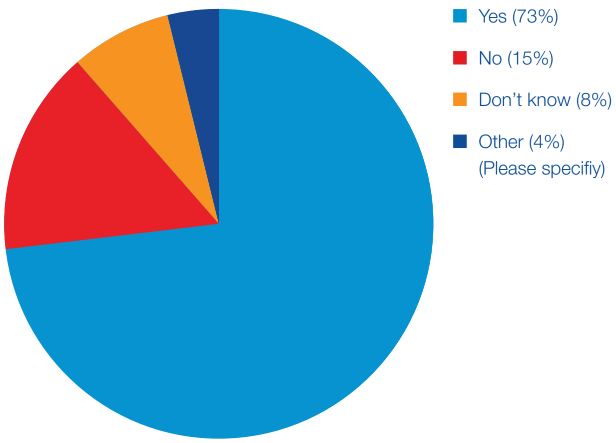
A specific product was mentioned with respect to Australia, but the author has not been able to confirm the details of this product to date.

Potential Suitability of Existing Products for the Australian Market

The survey provided a basic description of the LTCI products available in France and the US (see Appendix). Participants were then asked if they thought 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 (Question 5). The respondents' views in response to this question is shown in Figure 2.

Respondents were strongly in favour of the proposition. The only comment provided at this point is direct and summarises much of the feedback to come: *"Yes, but the market isn't ready for it"*.

Figure 2: *Whether LTCI product could be worthwhile in the Australian context (%)*



When asked to comment on the reasons for their views, responses were quite clear in terms of both the push factors (Table 2) and the barriers (Table 3). The extensive commentary also highlights the level of interest once the topic is actually raised for discussion.

Table 2 shows that there was a clear recognition of the underlying financial need as well as the influence of population ageing.

Table 2: *Reasons in support of LTCI as a worthwhile product in the Australian context*

Push factor	Illustrative comments
Financial need	Mentioned 11 times
	I have had the experience of older relatives being unable to fund their choice, or even any, form of aged care due to the high entry costs. There does seem to be a real funding gap.
	Cost of long term care in a residential care facility providing private rooms and adequate levels of care is expensive.
	A product like this would cover a significant 'longevity cost'.
	For those who have sufficient assets, a private program would relieve the anxiety of not running out of money and relying on the taxpayers.
	There is a cost that needs to be financed, and placing reliance on the government is not a preferred option for all people.
	There is a clear need for sensible, private, voluntary means of funding aged care needs.
Ageing population	Mentioned 3 times
	There is an increasing older age population with a defined insurance need that isn't currently catered for.
	With aging population we need to change the thinking that the government will look after me ... as I age. There will be increase reliance on looking after oneself.

On the other hand, Table 3 provides some reasons for why LTCI may not be a worthwhile product in Australia. In spite of the positive outlook on the potential for an LTCI product, barriers were mentioned twice as often as push factors, reinforcing the message that, while financial services providers likely see the possibilities, they can also see many issues to be overcome before a product might be made available to consumers.

As shown in Table 3, the major concern was limited consumer demand. These are complemented by comments about the role of the State: both the issue of perceptions regarding the level and extent of State provision of aged care and the need for active government intervention to create the necessary conditions for a market in LTCI to develop, counteracting the low level of demand.

Table 3: Comments as to why LTCI may not be a worthwhile product in Australia

Barrier	Illustrative comments
Limited demand	Mentioned 7 times *There would be no consumer demand for it.* *I am sceptical of how well it would be received by the general public.* *Yes, I can see there is a product of value - however, I'm unsure whether there would be adequate take-up of the product.* *There is a need and this is protection against it but the issue is whether the public see the cost as representing value for money (same as with life annuities) - the lack of demand is restricting the product's success.*
State will provide	Mentioned 4 times *Demand would be very low at present due to perception Govt. will look after special needs in this late infirm phase of life, and accumulated assets (especially the family home) can be sold to meet the need if necessary.* *Too long term, perception of State provision.*
Need for government intervention to stimulate	Mentioned 3 times *Only if associated with rebates or tax concessions with premiums or funded via super.* *Consumer resistance without any significant government intervention.*
Other	Mentioned 11 times *Hard enough as it is for people to retire with adequate retirement income and to encourage longevity risk protection.* *I get the impression care is fairly good even if you do not have the resources, so not sure I see the need.*

About half of participants (n=12) answered "Don't know" when asked which of the products described (French or American) might best suit the Australian context (Question 7). Six participants preferred the US Combination products, which combine aged care benefits with other forms of life insurance, in particular deferred annuities.

It is worth noting that there was very little interest in the French model, in particular the participating (with profits) aspect of the design, as this has fallen firmly out of favour in Australia in the last decades. Those who expressed a preference preferred the US Combi model by a factor of two to one over the other options.

It was perhaps unreasonable to expect a clear answer to this question, given that respondents have likely given very little thought to the issue in the past. Table 4 provides the comments regarding the choice of preferred model, which were quite perceptive and highlight the need to match market specific attitudes and country specific regulation. They emphasised the overall importance of transparency and getting the product design "right".

Table 4: *Comments regarding the choice of preferred model*

Aspect	Illustrative comments
Product design	Mentioned 6 times, with a variety of views *Given market trend of disaggregation of insurance benefits, hard to see a combi product working.* *Needs to be packaged up with something else to make it saleable.* *Australians are familiar with YRT and are generally comfortable with unbundled products; fixed benefits leave a massive risk that costs will outstrip the benefit.* *Lack of surrender value of stand-alone products likely to result in bad publicity. Combi product i.e. as rider, mitigates this somewhat but long term nature is still inconsistent with YRT basis/short term focus of life risk products.*
Specific attitudes	Mentioned 5 times *More market research is required to understand the Australian need, support system and attitudes to insurance etc before the product design can be ascertained.* *The challenge is getting a product that customers will buy. Which of these options will work is a matter for market testing.*
Specific regulation	*Benefits need to be very well defined with little uncertainty of outcome given Australian disclosure and regulatory outcomes.* *LTCI works best where fully integrated with state provision and where well matched to the charging structure used by suppliers of nursing care - this is often very country-specific, so it's not clear that importing a product from overseas would necessarily work.* *Indemnity basis would likely contravene the Health Act.*
Transparency	*Hard to see a participating model working with Australian consumers (lack of transparency/clarity).*
Other points of view	*None of them would be saleable.*

Supply-Side Barriers

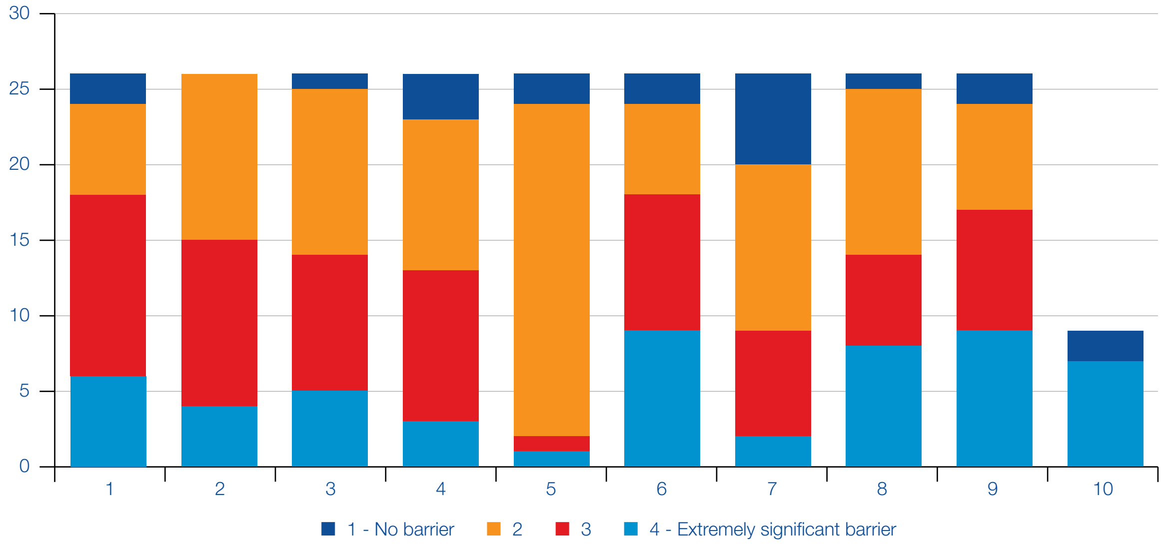
Supply-side barriers are those that hinder financial services providers from making a product available. In order to gain a more precise understanding of what may be blocking development of a product in Australia, Question 9 provides participants with a list of possible supply-side barriers and asks them to rate each one on a scale from 1 to 4 (1 being not a barrier at all to 4 being an extremely significant barrier).

Table 5 shows the ten barriers adapted from an essay by Craig Berry for the International Longevity Centre of the UK (Berry, 2011). The participants' rating of the ten supply-side barriers is shown in Figure 3.

Table 5: *The ten supply-side barriers*

No.	Supply-side barriers
1	Uncertainty over future costs of long term care provision.
2	Uncertainty over future design of care provision in Australia and the future role of informal carers; it is therefore difficult to design complementary products.
3	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.
4	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.
5	Costs associated with, and uncertainty as to the trustworthiness of, assessments of individual care needs.
6	Limited market profitability due to current market size.
7	The reputational risk associated with decisions not to pay/meet insurance claims of policy-holders in certain circumstances.
8	Lack of knowledge about long term care and/or care insurance products by independent financial advisors.
9	Regulatory constraints or regulatory uncertainty.
10	Other barrier.

Figure 3: *Ratings of supply-side barriers (n=26)*



Supply-side barriers represented by item numbers. Tables 5 and 6 match supply-side barriers and item numbers.

Ranking of the supply-side barriers was based on the weighted average of the responses. Table 6 shows the items in ranked order.

Table 6: *Ranking of the supply-side barriers from most significant to least significant*

Rank	Item No	Supply-side barrier
1	6	Limited market profitability due to current market size.
2	9	Regulatory constraints or regulatory uncertainty.
3	1	Uncertainty over future costs of long term care provision.
4	8	Lack of knowledge about long term care and/or care insurance products by independent financial advisors.
5	2	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	3	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	4	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	7	The reputational risk associated with decisions not to pay/meet insurance claims of policy-holders in certain circumstances.
9	5	Costs associated with, and uncertainty as to the trustworthiness of, assessments of individual care needs.

All the barriers were considered to be significant, with the exception of concerns regarding the cost and reliability of assessments of individual care needs, where the majority of respondents provided a rating of “2”.

When we consider the most highly ranked barriers, it is clear that the current market size is negligible. However the lack of a market currently reinforces the “chicken and egg” issue mentioned earlier.

The second highest rated barrier concerns regulatory constraints. Regulatory concerns echo previous comments: there is considerable uncertainty regarding long term government policy, which, combined with a lack of regulatory incentive (for example, in the form of tax concessions), means the lack of a suitable framework in which an LTCI product could be expected to flourish.

Participants clearly responded to the high level of uncertainty across all dimensions of the risk, which implies that most dimensions present considerable barriers to the development of an LTCI product in Australia today.

Other barriers raised were grouped around themes with respect to the cost of insurance, the long term nature of the commitment from all stakeholders and the lack of consumer awareness.

Table 7: *Other types of supply-side barriers*

Barrier	Illustrative comments
Cost	*Likely cost.*
	Is an expensive product, and therefore market would be small.
	The regulatory capital costs of providing long term guarantees is likely to be an important barrier.
Too long term	*Australian consumers have generally avoided ... paying now for something in the far future.*
	LTCI requires a long-term mentality (with a significant amount of pre-funding required and a very long coverage period) - this is sorely missing in the Australian government and the insurance / wealth management industry.
	Risk too long term for consumers to worry about.
Lack of consumer awareness/appeal	*Customer knowledge - lack of education.*
	Little consumer appeal.
Other	*Potential for improved government provision of services, removing the market for private insurance.*

When citing lack of consumer awareness and appeal, respondents are echoing comments reflected in Table 3 and already identifying a major demand-side barrier. These will be discussed in more detail in the following section.

The contrarian viewpoint, that government may in fact itself maintain the supply of services to meet increasing future demand, is perhaps a possibility, but not one that is supported by other respondents.

Demand-Side Barriers

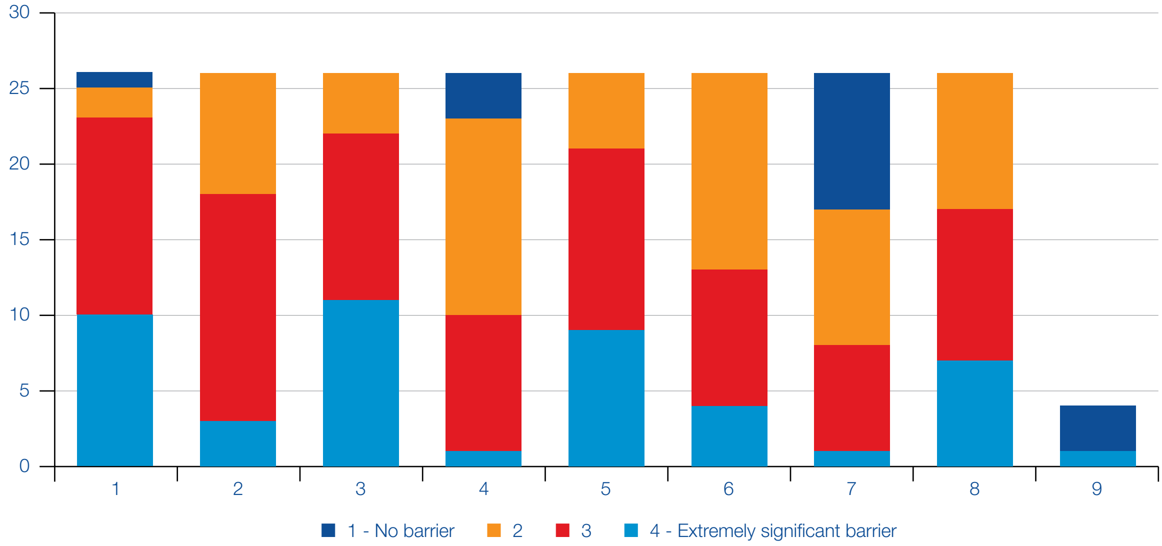
Demand-side barriers are those that hinder individuals from investing in a product, should it be available. The barriers used were adapted from Berry (2011) and are shown in Table 8.

Similar to the supply-side, Question 11 provides participants with a list of possible demand-side barriers and asks them to rate each one on a scale from 1 to 4 (1 being not a barrier at all to 4 being an extremely significant barrier). Participants' rating of each barrier is shown in Figure 4.

Table 8: *Demand-side barriers*

No.	Demand-side Barriers
1	Ignorance of the risk of future care needs, exacerbated by a lack of advice on risk and/or products, and of financial capability.
2	The unpredictable nature and extent of future care needs, cost of required care services and the proportion that might be covered by insurance.
3	The complexity and high cost of care insurance products.
4	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.
5	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.
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	Distrust of financial services.
8	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.
9	Other barrier.

Figure 4: *Ratings of demand-side barriers (n=26)*



Demand-side barriers represented by item numbers. Tables 8 and 9 match demand-side barriers and item numbers.

Ranking of the barrier items was based on the weighted average of the responses. Table 9 shows the items in ranked order.

Table 9: *Ranking of the demand-side barriers from most significant to least significant*

Rank	Item No	Demand-side barrier
1	3	The complexity and high cost of care insurance products.
2	1	Ignorance of the risk of future care needs, exacerbated by a lack of advice on risk and/or products, and of financial capability.
3	5	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	8	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	2	The unpredictable nature and extent of future care needs, cost of required care services and the proportion that might be covered by insurance.
6	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	4	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	7	Distrust of financial services.

As shown in Table 9, the complexity and high cost of care insurance products ranked as the most significant barrier overall. The author believes that this is likely to be respondents' expectation of the likely perception by consumers. It is to be hoped that respondents themselves do not believe that the products they currently provide are unnecessarily complex and expensive, although it is recognised that LTCI is a relatively complex risk to insure. This interpretation is supported by the low level of support for the idea that distrust of financial services is a significant barrier to demand.

Complexity and cost are closely followed by the view that demand is stymied because consumers are unaware of the risk of needing aged care and/or believe that government provision will cover all their needs. The personal interviews presented later reveal another dimension to this barrier: active avoidance of thinking about the risk rather than mere ignorance.

On average the demand-side barriers are perceived to be only marginally more significant than supply-side barriers.

When asked to nominate other barriers, there were fewer responses than for the supply-side, with many themes reoccurring. The wealth paradox is well expressed in these responses, as summarised in Table 10.

Table 10: *Other types of demand-side barriers*

Barrier	Illustrative comments
Too long term	*Long term nature of product, as compared to short term focus of other financial services products e.g. super portability, YRT risk business.*
	People aren't interested in buying protection against a risk that won't eventuate until many years into the future. That's why there is no market for lifetime annuities and tax concessions and compulsion are necessary to get people to invest in superannuation.
Wealth paradox	*Low to middle income earners feel the government will look after them. Higher net worth, who are aware they may need/want something better than government provision, rely on having enough assets to fund their need.*

Is the Risk Insurable?

A fundamental requirement for an insurance product to function is that the underlying risk conforms to the principles of insurability (Coomber, 2006). Box 1 provides a brief description of the principles. There are some who argue that long term care is not an insurable risk, at least in the form of a private, voluntary product (Barr, 2010), so it was important to establish the views of Australian financial services providers on this point.

Box 1: Principles of insurability

- Randomness
  The insured should not be able to induce a claimable event
- Assessibility
  Within reasonable confidence limits it must be possible to assess the frequency and severity of claimable events
- Mutuality of interest
  Insureds must be satisfied that the terms for sharing risk with other members of the insured community are economically fair
- Affordability
  The absolute amount payable for any event or series of events must be limited to an amount which can be diversified within the risk pool

Question 13 asks respondents to specify the reasons why they believe that long term care need is not an insurable risk. Only four of the 26 participants responded, which implies that 22 believe the risk is indeed insurable. Therefore, it can be concluded that the group strongly believes the risk is insurable, at least in principle, so this is not considered to be a barrier in the Australian context. Table 11 shows the four participants' view on insurable risk.

Table 11: *Reasons regarding insurability*

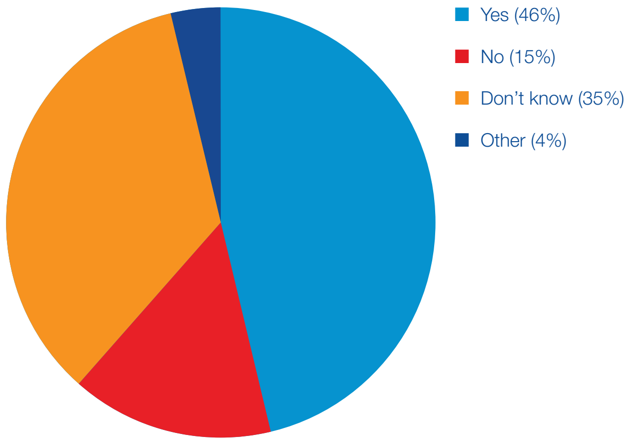
Reasons
I believe long term care is an insurable risk, the question is one of degree.
Not sure one can define an indemnity product, but a fixed benefit seems insurable.
It should be an insurable risk, but one for which awareness and therefore demand is low.
To be an insurable risk there has to be a market for it - not sure a market exists at the moment (value vs price).

Views on Future Directions

The last section of the survey addressed respondents' views on the likely influence of recent policy changes and longer term demographic trends on the prospects for LTCI in Australia.

Firstly they were asked to consider whether, in their opinion, the introduction of the LLLB package, which introduces an increased user pays component to care costs for consumer, change the likelihood that LTCI products will develop (Question 14). The responses are shown in Figure 5.

Figure 5: *Proportion in agreement with the likelihood that LTCI products will develop due to the introduction of the LLLB package (%)*



Nine participants were undecided regarding the likelihood that LTCI products will develop as a result of the introduction of the LLLB package. However, of those who had a firm view, those who felt that the recent policy changes would be a favourable influence outnumbered those who did not by three to one (46% versus 15%).

At this point the author explored the correspondence between awareness of the LLLB proposals and views on their likely influence (Question 15). Table 12 provides supporting comments into participants' views. The striking result was that all those who felt the package would not make development of LTCI more likely all had "little" or "some" knowledge of the proposals. Those who had "no" knowledge were evenly split between "Don't Know" and a positive outlook on the influence of the package. Perhaps awareness of the proposed cap on annual and lifetime care fees, which should have the effect of reducing the potential financial exposure of individuals to the risk of extended aged care, is the cause of this pattern, outweighing the influence of proposed increases in the user-pays elements.

Table 12: *Comments on the likely impact of the LLLB package and the development of LTCI products*

The likelihood that LTCI will develop	Illustrative comments
No	*Most people still see it as a issue for the future, not for now. The ones that need it in near future will not be able to afford it.*
	User pays only applies if you have sufficient assets. If you have sufficient assets you don't need insurance.
	General low awareness of the package and also still community expectation that "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 of LTC and so little impact on the development in this space. 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 (or other social benefit will sickness and accident) then it needs to play a greater role in promoting the need to insure.
Yes	*Any transfer of potential costs onto users is likely to have some impact on the ability for providers to market LTCI products.*
	The more people need to pay individually, the greater the potential for an insurance solution.
	Costs will become more apparent earlier - but the challenge will be to make the products cost effective and profitable.
	I think 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.

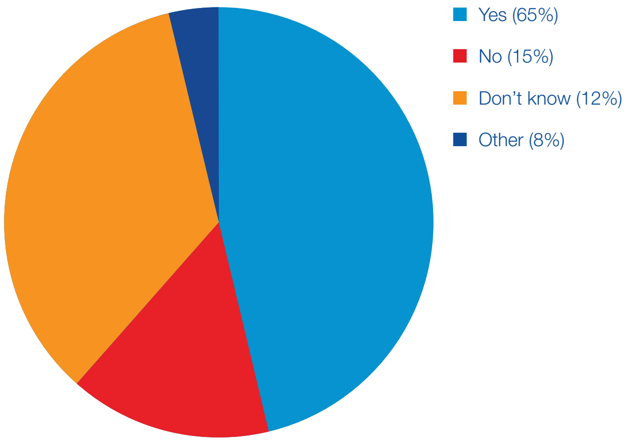
The comments supporting the "No" responses highlight the paradox of both age and wealth: those who are older and closer to needing care, may find insurance unaffordable and those who can afford insurance are more likely to be able to pay for care directly. The barrier of belief that care is funded entirely by the State is expressed. In addition, the themes of avoidance of thinking about the risk ("She'll be right"), the perceived need for government intervention and the lack of cover for prior life stages, which will emerge strongly in the personal interviews, are all apparent.

The comments supporting the "Yes" responses are generally weaker in their affirmation of the expected effect, and are often accompanied by references to barriers such as product appeal and perceived need for government intervention.

Respondents were then asked to consider whether, in their opinion, the increasing focus on the older population and the potential for financial services products adapted to the needs of this cohort of the population change the likelihood that LTCI products will develop (Question 16). The respondents' views are shown in Figure 6.

Respondents are much more certain and much more positive regarding the impact of the ageing population as a whole as opposed to the LLLB package alone, on the likelihood that LTCI will develop. Only three respondents were undecided and of those who had a firm view, a positive outlook outweighed a negative outlook by four to one (65% versus 15%).

Figure 6: *Proportion in agreement with the likelihood that LTCI products will develop due to an increasing focus on the older population (%)*



One of the "Other" responses recognised that *"as the population ages, there is likely to be increased demand and recognition of the costs"* but did not give an opinion about the development of an insurance product in response to this.

Table 13 provides the respondents' comments which clearly support the view that overall awareness of the issues will increase, but that significant challenges remain.

Table 13: *Comments regarding the impact of the focus on the older population and the development of LTCI products*

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

On the positive side is the perception of growing need and openness to the role insurance ought to be able to play. The negatives cannot be understated, and currently clearly outweigh the positives.

The concluding remarks provided by two respondents summarise the situation well, while making a positive suggestion for the future:

> *"While the concept is a good one, commercial reality is such that it would take a lot for LTC to gain any traction in Australia."*
>
> *"You could investigate whether long term care insurance should be made a compulsory part of the superannuation system."*

These comments highlight the receptiveness of respondents to the concept of an insurance solution: this is not the barrier that some commentators have stated it to be. However the challenges are significant and hence significant effort from all concerned parties is believed to be required in order to overcome these challenges.

Detailed Results of the Personal Interviews

The personal interviews covered specific questions and common points which are discussed in the following section of this report. Being more wide-ranging, they also raised some further interesting themes which are also addressed here.

In particular, when discussing barriers, respondents were not limited to what was listed in the online survey. This led to other barriers emerging which are discussed more fully in the following sections.

Indeed discussed here are several themes that emerged in addition to or more broadly than those already identified in the online survey. The following criteria were used to select issues for inclusion here:

- Number of participants who commented on the issue (maximum 6)
- Number of comments made on the issue overall.

Product development is the most frequently commented issue, followed by stresses in the supply of care, role of Government, financial exposure, avoidance of facing the risk and influence of personal experience.

Product Development

Product development is a somewhat technical subject, but it is central to overcoming many of the barriers that have been identified. Issues around stimulating consumer demand, ensuring the product appeals to consumers and meets the financial need effectively, while representing perceived value for money will all be dealt with to some extent by the design of the insurance product itself.

All participants were asked the following questions around specific product experiences:

- Have you ever been involved in feasibility studies, development or launch of a LTCI product or anything resembling it?
- Could you briefly describe that project (which country, when, level and type of involvement)?
- What was the outcome of that project?
- What product do you think is likely to be developed, if any?

When speaking about past product exposure, most cited seeing presentations from reinsurers promoting possible product designs to local players, usually drawing on international experience. This is very common method of local market innovation and knowledge transfer (for example Trauma insurance originally developed in South Africa). However, most of these experiences were 10 to 15 years ago, and there hasn't been any recent activity of a similar nature.

Respondents with international experience were able to describe their exposure to LTCI solutions developed in the UK, France and Singapore. However there was a clear message that any solution needed to be specifically tailored to the local market both in terms of the supply and financing of aged care services and in terms of consumer attitudes and behaviours, with respect to both ageing and insurance.

Some key comments to illustrate:

> *"If you got the magic formula in terms of affordability, structure of the product, and people seeing the worth of it, and I guess if you got the advisors on board."*
>
> *"So the industry, if it really was concerned about doing market research, and about designing its products to meet the needs of its clients, would look not at not what they need, but at what people want as beneficiaries."*
>
> *"I think as a reinsurer knowing globally this has not worked we would probably want to unpick and understand how it would be very different here back to, you're trying to figure that out as well, we'd want to probably understand what are the structural reasons why it didn't work."*

Stresses in the Supply of Care

This was not raised in the online survey, however all participants made comments that showed they had a high level of concern about the current stresses on the supply of care itself. The existence of these stresses should also contribute to the development of individual responses, which could, but currently does not, include a private, voluntary LTCI market.

From the individual's point of view:

> *"You know they [respondent's elderly relatives] wanted to be somewhere together, and that's really not an affordable option for them, and it's kind of this whole ability to kind of determine where you go, and to choose, as opposed to just taking something because it's all there is."*
>
> *"I don't know how much of a choice is available… I get the impression occupancy rates in the 80s and 90s are quite normal, and therefore there's not, it's not a situation where there's just these you can go out and do anything you want."*
>
> *"I have had the personal experience of my parents here particularly my mother who was in long term and nursing care for many years and I had difficult experiences with her and finding places and I looked in both Sydney and Tasmania where in the end she ended up, but clearly looking around Sydney the quality of stuff didn't excite me to be perfectly honest."*

From the aged care services provider's point of view:

> *"Assume the government's getting a bit worried about the fact that, as I understand it… they go through this ballot process where they give out aged care spaces… on a number of occasions… zero applications have gone in because people are realising there is absolutely no mileage [in terms of acceptable financial return] to be had from building more of these aged care facilities."*
>
> *"Retirement villages themselves are very hard to make money out of, or to run even on break even basis in a long term model, a long term basis."*
>
> *"Financing of retirement villages, which I think has got the same issue, is that these bonds actually are perverse in the sense they provide finance, these homes are run, they need to money to borrow, so it creates a liquidity trap and solvency issue for them... so they're not funded appropriately, and they don't understand the consequences."*

> *"My understanding is a lot of aged care organisations are losing money."*
>
> *"Frankly, last year anyway, 20 retirement villages around Sydney went into receivership."*
>
> *"Should be growing at 20% per annum [but often this growth is very unevenly spread geographically]… A lot of people going into the market think there's money to be made and a lot of money lost."*

While respondents didn't have a detailed knowledge of current or even proposed aged care financing arrangements, these responses show a consistent awareness of issues such as lack of choice for individuals and marginal financial returns for aged care providers. This lose/lose situation could evolve into a lose/lose/lose situation if the government also finds costs growing at an unsustainable rate.

A private, voluntary insurance market could relieve some of these stresses, assuming other barriers could be overcome.

Role of Government

When considering other barriers, respondents strongly felt that there was a role for government to address these. There was a perception that the financial services industry is hampered in its ability to promote LTCI itself as it will be seen as a self-interested party. The government can be perceived to be a somewhat more independent voice for raising awareness of the risk and the potential costs associated with aged care.

> *"Real challenge to balance all these conflicting interests together, and I don't think it's really possible to do it for an insurer or even an insurance industry to do it on its own without some sort of cooperation or partnership from the government."*

In addition the need for consistency in government policy over the long term is regarded as essential to creating the stable environment required for such a long term insurance product to be successful. At the same time respondents recognise that long term planning is often challenging for governments.

> *"So it's that sort of thing where it needs a long term approach, and it [the government] needs to pretty quickly nail down what are going to be the things that they can deliver, and what do people need to accept will be kind of limited in some way, if they rely on the government system."*
>
> *"It starts off a certain way and then the government tinkers with it as it becomes less affordable."*
>
> *"There's always pressure on government finances."*
>
> *"Even if there was an intention to fund them at the beginning, they become, gradually over time they become pay as you go."*
>
> *"I don't think any responsible government can put in place a pay as you go scheme and think that's doing any good for future generations."*

Respondents also touched on the risk of government withdrawal from the provision of aged care services.

> *"Given the cost pressures, I mean the government may not walk away from providing care but it's whether in fact that care will be regarded as adequate or nice enough by an increasing proportion of the population."*

Financial Exposure

Respondents explored the issue of where the financial exposure to long term care risk really arises for individuals. Table 14 contains comments regarding the financial exposure for individuals. As actuaries in the financial services industry, they are keenly aware that there must be a financial need to be met in order for insurance to have a role to play. Discussion centred around three aspects:

- The possibility (which is avoidable, at the cost of reduced choice in services) of a very large financial commitment, both in ongoing fees but also in respect of the effectively refundable accommodation bond
- An analogy with the presence of choice in the education system
- An alternative view, that of the "wealth paradox".

The fact that views did not coincide reinforces the lack of general public awareness of the financing of aged care in Australia as identified in the online survey, where only 50% of respondents claimed "Some knowledge" of financing arrangements. In addition there is support for the view that the refundability of the accommodation bond is not well understood.

Table 14: *Comments on financial exposure to long term care risk for individuals*

Financial exposure for individuals	Illustrative comments
Possibility of very significant financial exposure	*His mother had just gone into a nursing home, and he's found I gather a very nice one up on the lower north shore, but the money he quoted he was paying was astronomical.*
	He's got a nice enough house somewhere in Sydney, I suspect he's probably going to get $500,000 - $600,000 dollars for it, but by the time you've got a bond of $250,000, which you might have to give both husband and wife, there's nothing left… I tell him he needs to think in terms then though that his handing on his kind of inheritance to his kids occurs when he dies, because that bond, subject to a small charge, will basically come back - so that's when the money occurs.
	My own grandmother has just moved into a residential low care, so probably 6 months ago now. And that wasn't a drama because she had enough money, but the bond is like $300,000 up to $600,000… going to see my grandmother, it's just like amazing, in terms of the setup, the staff, and the meals and the care.
Impact of choice	*A bit like the education system, in the end the middle classes almost significantly opted out of the public school system and has shown willingness to pay significant amounts to send our children to private schools. And I am sure a lot of that is because - it's not that the state system is just totally inadequate and useless but on the other hand where there's money available or where there's choices, people will choose something better or they perceive as better.*
Wealth paradox	*I don't know whether it's needed - I mean the extent to whether it's needed, and it interacts with the means test and, yeah I mean it seems the actual support for older people in Australia is actually very generous.*
	If you had the money you'd be fine, if you didn't have the money you'd be looked after pretty well anyway.

Avoidance of Facing the Risk

The active avoidance of facing up to the risk of needing long term care, and the impact this might have on the potential for an LTCI market to develop was evoked by several respondents. This active avoidance goes further than the ignorance of the risk suggested by Berry (2011) as a demand barrier. Respondents are quite blunt in their statements regarding this issue:

> *"Planning for the time when they may well not be able to look after themselves in a competent way, is not a pleasant thought, and I don't think people naturally think about it… I know I don't like to think about it."*
>
> *"They are still fighting going into a nursing home, that's the last, that's the foot in the grave kind of stuff."*
>
> *"I think the biggest struggle with this is it's just something people do not want to think about, and when they try and picture themselves in those final years, no one wants to think about themselves in some kind of delusional dementia state."*
>
> *"That's a tough sell, for something that you don't want to think about anyway."*
>
> *"Why life insurance is difficult to sell, I pay for life insurance for my wife and children to benefit, clearly that's not something that I would do automatically, and there'll be a level of denial. Similarly the disability insurance, so why don't people want to take cover, they think basically… It's not going to happen to me. They can't imagine, unless they know someone who's disabled, they can't imagine themselves in that situation or imagine... Same with ageing."*

The theme of the influence of underinsurance for other life stages, as touched on in the online survey, was reinforced by comments such as:

> *"One thing maybe that was missed is… people's actual willingness to spend money on any insurance, let alone one that seems a bit like remote to people."*

Influence of Personal Experience

All interviewed respondents were asked to what extent they thought personal experience of the aged care system and long term care issues, such as having to arrange care for a relative, might influence people working in financial services to consider the need for an insurance product.

Only half had had a personal experience of arranging care for a parent or other relative, many of these experiences have been described in previous sections of the report. While acknowledging that having that experience would bring the issues "front of mind", there was no support for the idea that this might lead to action.

These personal interviews were a rich source of additional insight into the issues facing aged care in Australia today and in particular the potential for a LTCI market to develop.

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ABOUT THE NATIONAL SENIORS PRODUCTIVE AGEING CENTRE

The National Seniors Productive Ageing Centre is an initiative of National Seniors Australia and the Department of Health and Ageing to advance research into issues of productive ageing. The Centre's aim is to advance knowledge and understanding of all aspects of productive ageing to improve the quality of life of people aged 50 and over.

The Centre's key objectives are to:

- Support quality consumer oriented research informed by the experience of people aged 50 and over;
- Inform Government, business and the community on productive ageing across the life course;
- Raise awareness of research findings which are useful for older people; and
- Be a leading centre for research, education and information on productive ageing in Australia.

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