

VI. LAPSE RATES

A. Lapse Rates for Policies Bought in 1997⁵¹

For the purposes of this study, the lapse rate (also known as surrender rate) represents the number of persons who purchased a policy during 1997, but did not hold that policy by the end of 2001. Individual policies may no longer be in-force because the policyholder died, switched to another policy, exhausted benefits through use or stopped paying premiums and let the policy terminate. Group policies may no longer be in-force for the same reasons, and lapse rates may be higher for group policies because employers may switch carriers or employees leave employers without purchasing conversion coverage.

National

As reported in Exhibit 11, **36.2%** of long-term care policies purchased from the 23 respondents in 1997 had lapsed by the end of 2001. This means that **63.8%** of the policies bought in 1997 were still in-force by the end of 2001. Group policies may no longer be in-force for the same reasons, and lapse rates may be higher for group policies because employers may switch carriers or employees leave employers without purchasing conversion coverage.

In the group market,⁵² **43.3%** of long-term care policies purchased from the 8 respondents in 1997 had lapsed by the end of 2001. This means **56.7%** of the policies bought in 1997 were still in-force by the end of 2001.

In the individual market, **33.8%** of long-term care policies purchased from the 15 respondents in 1997 had lapsed by the end of 2001. This means **66.2%** of the policies bought in 1997 were in-force by the end of 2001.

Massachusetts⁵³

As reported in Exhibit 11, **33.2%** of long-term care policies purchased from the 21 respondents in 1997 had lapsed by the end of 2001. This means **67.3%** of the policies bought in 1997 were still in-force by the end of 2001. Group policies may no longer be in-force for the same reasons, and lapse rates may be higher for group policies because employers may switch carriers or employees leave employers without purchasing conversion coverage.

In the group market,^{51, 52} **45.4%** of long-term care policies purchased from the 8 respondents in 1997 lapsed by the end of 2001. This means that **54.6%** of the policies bought in 1997 were in-force by the end of 2001.

In the individual market, 13 respondents reported that **29.6%** of long-term care policies purchased in 1997 lapsed by the end of 2001. This means that **70.4%** of the policies bought in 1997 were in-force by the end of 2001.

⁵¹ The statistics only reflect the number of policyholders who, at the end of a five-year period, no longer hold the original policy issued in the initial year. Statistics may include those policyholders who switched to another policy during the five-year period.

⁵² Rates reported may be higher for group policies in relation to individual policies because employers may switch carriers or employees may leave employers without buying conversion coverage.

⁵³ Two carriers are active only in the group market in Massachusetts.

EXHIBIT 11

LONG-TERM CARE INSURANCE

LAPSE RATES FOR POLICIES BOUGHT IN 1992 AS OF 1996^{54, 55}

LAPSE RATES FOR POLICES BOUGHT IN 1997 AS OF 2001⁵⁴

National	1996		2001	
	# Resp.	Mean Rate	# Resp.	Mean Rate
Total	25	29.3%	23	36.2%
Group ⁵⁶	11	27.5%	8	43.3%
Individual	14	31.1%	15	33.8%

Massachusetts	1996		2001	
	# Resp.	Mean Rate	# Resp.	Mean Rate
Total	16	25.6%	21	33.2%
Group ^{55, 57}	11	21.5%	8	45.4%
Individual	5	32.1%	13	29.6%

Table Notes:

	1996 National		1996 Massachusetts	
	Range	Median Rate	Range	Median Rate
Total	3.8 - 56.0%	30.8%	0 - 47.4%	33.1%
Group	9.6 - 56.0%	32.7%	0 - 44.9%	33.3%
Individual	3.8 - 55.2%	30.8%	19.9 - 47.4%	31.4%

	2001 National		2001 Massachusetts	
	Range	Median Rate	Range	Median Rate
Total	.9 - 61.7%	30.7%	2.4 - 77.6%	26.7%
Group	.9 - 61.7%	32.7%	2.4 - 77.6%	33.3%
Individual	19.8 - 58.3%	27.7%	15.2 - 44.3%	25.3%

54 Table notes for the 1996 data have been adjusted based on a review of information reported in the 1997 survey.

55 The statistics only reflect the number of policyholders who, at the end of a five-year period, no longer hold the original policy issued in the initial year. Statistics may include those policyholders who switched to another policy during the five-year period.

56 Lapse rates may be higher for group policies because employers may switch carriers or employees leave employers without purchasing conversion coverage.

57 The 1992 - 1996 group lapse rate includes a large carrier that stopped offering group association policies in 1999; carrier is not included in the 1997 - 2001 group lapse rate.

B. Lapse Rates Due to Mortality

National⁵⁸

In the group market, seven respondents claim that the lapse rate due to mortality ranged from between **0.1%** and **1.4%**. In the individual market, ten respondents claim that the lapse rate due to mortality ranged from between **0.1%** and **1.0%**.

Massachusetts⁵⁹

In the group market, seven respondents claim that the lapse rate due to mortality ranged from between **0.0%** and **2.2%**. In the individual market, nine respondents claim that the lapse rate due to mortality ranged from between **0.4%** and **1.1%**.

⁵⁸ Five individual carriers provided insufficient information. Two group carriers provided insufficient information.

⁵⁹ Two carriers are active only in the group market in Massachusetts. One carrier's National and Massachusetts group trust business was transferred to another carrier effective January 1, 1998. Four individual carriers provided insufficient information. Two group carriers provided insufficient information.