

## VI. LAPSE RATES

### A. Lapse Rates for Plans Bought in 2002 <sup>36</sup>

For the purposes of this study, the lapse rate (also known as surrender rate) represents the number of persons who purchased a plan during 2002, but did not hold that plan by the end of 2004. Please note, the 2001 data as shown in Exhibit 11 represents the number of persons who purchased a plan during 1997 but did not hold the plan by the end of 2001. Individual plans may no longer be in-force because the insured died, switched to another plan, exhausted benefits through use or stopped paying premiums and let the plan terminate. Group plans may no longer be in-force for the same reasons, and lapse rates may be higher for group plans because employers may switch companies or employees leave employers without purchasing conversion coverage.

#### National <sup>37</sup>

According to the companies responding regarding lapse rates, as reported in Exhibit 11, **13.1%** of long-term care plans purchased in 2002 had lapsed by the end of 2004. This means that **86.9%** of the plans bought in 2002 were still in-force by the end of 2004.

According to the companies responding regarding lapse rates, in the group market, **17.9%** of long-term care plans purchased in 2002 had lapsed by the end of 2004. This means **82.1%** of the plans bought in 2002 were still in-force by the end of 2004. It should be noted, group plans may no longer be in-force for the same reasons, and lapse rates may be higher for group plans because employers may switch companies or employees leave employers without purchasing conversion coverage.

According to the companies responding regarding lapse rates, in the individual market, **10.5%** of long-term care plans purchased in 2002 had lapsed by the end of 2004. This means **89.5%** of the plans bought in 2002 were in-force by the end of 2004.

#### Massachusetts <sup>38</sup>

According to the companies responding regarding lapse rates, as reported in Exhibit 11, **11.8%** of long-term care plans purchased in 2002 had lapsed by the end of 2004. This means **88.2%** of the plans bought in 2002 were still in-force by the end of 2004.

According to the companies responding regarding lapse rates, in the group market, **17.6%** of long-term care plans purchased in 2002 lapsed by the end of 2004. This means that **82.4%** of the plans bought in 2002 were in-force by the end of 2004. As noted above, group plans may no longer be in-force for the same reasons, and lapse rates may be higher for group plans because employers may switch companies or employees leave employers without purchasing conversion coverage.

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<sup>36</sup> The statistics only reflect the number of insureds who, at the end of a three-year period, no longer hold the original policy issued in the initial year. Statistics may include those insureds who switched to another policy during the three-year period.

<sup>37</sup> All but eight of the forty companies could respond to this question; the remaining companies either were no longer offering coverage nationally in 2004 or they provided insufficient information and their data were not included in the summary statistic. Lapse 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.

<sup>38</sup> Thirty-three companies could respond to this question; the remaining companies either were no longer offering coverage nationally in 2004 or they provided insufficient information and their data were not included in the summary statistic.

According to the companies responding regarding lapse rates, in the individual market, **8.5%** of long-term care plans purchased in 2002 lapsed by the end of 2004. This means that **91.5%** of the plans bought in 2002 were in-force by the end of 2004.

EXHIBIT 11

LONG-TERM CARE INSURANCE

LAPSE RATES FOR PLANS BOUGHT IN 1997 AS OF 2001

LAPSE RATES FOR POLICES BOUGHT IN 2002 AS OF 2004

<b>National</b>	<b>2001</b>	<b>2004</b>
	<b>Mean Rate</b>	<b>Mean Rate</b>
Total	36.2%	13.1%
Group	43.3%	17.9%
Individual	33.8%	10.5%

<b>Massachusetts</b>	<b>2001</b>	<b>2004</b>
	<b>Mean Rate</b>	<b>Mean Rate</b>
Total	33.2%	11.8%
Group	45.4%	17.6%
Individual	29.6%	8.5%

NOTE: Totals are taken from survey data reported by those long-term care insurers with Massachusetts insureds. Data from companies that do not have Massachusetts insureds are not reflected in totals.

B. Lapse Rates Due to Mortality<sup>39</sup>

National<sup>40</sup>

According to the companies responding regarding the lapse rates due to mortality, in the group market, the lapse rate due to mortality ranged from between **0.00%** and **0.88%**. In the individual market, the lapse rate due to mortality ranged from between **0.00%** and **1.60%**.

Massachusetts<sup>41</sup>

According to the companies responding regarding lapse rates due to mortality, in the group market, the lapse rate due to mortality ranged from between **0.00%** and **4.48%**. In the individual market, the lapse rate due to mortality ranged from between **0.00%** and **0.68%**.

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<sup>39</sup> Statistics are based on the average yearly mortality rate during the first two years of coverage for persons purchasing long-term care insurance in 2002.

<sup>40</sup> Thirty-three companies could respond to this question; the remaining companies either were no longer offering coverage nationally in 2002 or they provided insufficient information and their data were not included in the summary statistic.

<sup>41</sup> Twenty-six companies could respond to this question; the remaining companies either were no longer offering coverage in Massachusetts in 2002 or they provided insufficient information and their data were not included in the summary statistic.