State Of Israel
Ministry Of Finance
Capital Markets, Insurance And Savings Division

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Circular Letter 2002/6 - Individual Long Term Care Insurance

General

A long term care policy is designed to provide financial support to a person who is unable to perform vital daily activities or who requires supervision. The overwhelming majority of such cases occur in old age (ages 75 and up). Since this coverage extends over such an extended period of time, special regulatory considerations are required.

It is difficult for insurers to commit to a fixed premium scale for a long term care policy at the time of issue. This is due to the limited amount of data that is available and to the uncertainty regarding future developments that may affect the level of risk.

For these reasons, in this circular letter we are establishing a number of principles. Since we are dealing with insurance that is most needed at older ages, we are setting the coverage period to be the entire life of the insured. We are also requiring that long term care insurance be sold on its own, independent of the sale of other coverages, for the following reasons: (1) the importance of the product, (2) the fact that this type of coverage is not provided on a similar level by the social security system, and (3) the lack of any obvious connection between the need for long term care coverage and the need for other coverages.

With this background in mind, in order to deal with the particular features of long term care insurance and to guarantee proper coverage over an extended period of time, the following are requirements for individual long term care insurance policies.

Definitions

Payment Period: the number of years during which insurance benefits will be paid, as set out in the policy.

Paid-Up Value: the amount of insurance that will be in force starting at the time that premiums cease to be paid; this value is to be derived from the reserve that was accumulated for the insured, taking into consideration an appropriate expense component.

Level Premium: an amount of premium that does not change due to the age of the insured over the entire coverage period, except for regular adjustments due to changes in the Consumer Price Index (which affect the premiums and the long term care payments) and premium scale changes approved by the commissioner, as described in section 5.

1. Coverage Period

The coverage period for a long term care insurance policy shall be the lifetime of the insured. The insurer is not allowed to cancel the policy due to any condition that may appear in the policy, except for the reasons set out in the law (e.g. non-payment of premiums).

2. Premiums

a. If the insured is less than 65 years old at issue, the insurer may offer him the choice of a level premium or a premium that varies with his attained age. In either case, beginning at attained age 65 the premium must be level.
b. If the insured is 65 or older at issue, the insurer may only offer him a level premium.
c. The insurer shall attach a table of premiums and examples of paid-up values to every sales offer. The paid-up values shall be shown at least for every fifth attained age. In the policy data pages, the insurer must provide tables of premiums and of paid-up values that relate specifically to the insured.
d. Whenever a policy has level premiums, the insurer must hold appropriate reserves for the insured.

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3. Paid-Up Values

a. The insurer shall provide paid-up values to the insured in every case of policy termination on or after the following dates, where X is the date when the insured begins to pay level premiums:

Issue Age	Policy with payment period of three years	Policy with payment period of five years
0 – 39	X + 5	X + 3
40 – 59	X + 3	X + 2
60 – 64	X + 2	X + 1
65 +	X + 1	X + 1

b. If, however, an insured has paid premiums that vary by age for at least five years and then switches to level premiums, he will receive a paid-up value as soon as he switches to level premiums.

c. Regarding payment periods that differ from those in the above table, the insurer shall offer an appropriate schedule of paid-up values, subject to approval by the Insurance Commissioner.

d. The paid-up values shall vary according to the following parameters: gender, age, and length of time that level premiums have been paid. Other additional parameters may be included if appropriate.

e. The paid-up value may not be provided as a shortened coverage period. The coverage period must always be the lifetime of the insured.

f. If the paid-up value would provide less than 800 NIS (New Israeli Shekel) as a monthly benefit, then the insured shall receive the paid-up value in cash. The amount of 800 NIS is indexed to inflation and it is based on the consumer price index for January 2002. [Note: this sum is approximately equal to 170 U.S. Dollars, as of August 2002.]

4. Prohibition of Subsidies across Classes of Insureds

a. The premiums should not be priced in a way that subsidizes across ages or genders.
b. Age grouping may be used in the premium scale; however, each age group shall not contain more than five ages.

5. Changes to the Premium Scale

a. An insurer may not raise its premium scale without permission of the Insurance Commissioner and not within five years of the policy approval (or approval of the last premium increase). At the time the premium scale is changed, the insurer will be allowed to adjust its scale of paid-up values in accordance with the change in premiums.
b. The insurer must inform the insureds in writing of any premium increase that has been approved by the Commissioner at least 60 days before the increase goes into effect.
c. Whenever the premium is increased, the insured must be offered the option of continuing to pay the current premium and lowering the long term care payment amounts accordingly.

6. Long Term Care Payments for Home Care

In addition to institutional care, a long term care policy shall also cover care provided in the insured's home. The insurer shall either pay for home care at a set rate (i.e. not reimbursement for expenses) or it will provide the home care services itself according to conditions set out in the policy.

7. Waiver of Premium Payments

In a long term care policy, the insurer will waive premium payments while it is providing long term care payments.

8. Prohibition of Conditioning the Sale of a Long Term Care Policy upon Anything Else

An insurer may not condition the sale of a long term care policy on the purchase of another insurance coverage or any other product or service. Similarly, the insurer may not condition the termination of a long term care policy on any of the above.

9. Annual Report to Insureds

The annual report requirements of Circular Letter 2001/10 apply to all insureds, both those who are paying premiums and those whose policies are paid up.

10. Applicability

The requirements of this circular letter apply to individual long term care insurance policies.

11. Effective Date

The requirements of this circular letter apply to all individual long term care insurance policies sold on or after May 1, 2003.

12. Implementation

Any insurer that intends to sell individual long term care insurance policies shall submit a policy that conforms to the requirements of this circular letter not later than January 1, 2003.

Tzipi Samet

Commissioner of Insurance

Note: In any case of discrepancy between this translation and the original circular letter in Hebrew, the original will govern.