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FISCAL IMPACT REPORT

ORIGINAL DATE 2/14/22

SPONSOR Kernan LAST UPDATED _____ HB _____

SHORT TITLE Study Long-Term Care Insurance SM 26

ANALYST Dick-Peddie

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$0.0	\$100.0- \$300.0	\$0.00	\$100.0- \$300.0	Nonrecurring	Insurance Policy Fund/General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Office of Superintendent of Insurance (OSI)

Attorney General's Office (NMAG)

SUMMARY

Synopsis of Bill

Senate Memorial 26 requests the Office of the Superintendent of Insurance to conduct and complete a comprehensive study on the affordability of long-term care insurance, to include an analysis of premiums benefits, the impact of rate increases imposed on New Mexico consumers, and potential relief for policyholders from unaffordable premium increases.

In addition, the Superintendent is requested to engage consultants as necessary and conduct at least one public hearing on the matter. Finally, the Superintendent is expected to prepare a report with recommendations on how best to protect New Mexico consumers who hold or wish to purchase long-term care insurance policies and present the findings and conclusions to the Legislature by December 1, 2022.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

There is no appropriation contained in the memorial. The Office of the Superintendent of Insurance (OSI) notes that there may be an expense to completing the study from the insurance policy fund. The insurance policy fund reverts to the general fund, therefore this analysis projects a \$100 thousand to \$300 thousand nonrecurring general fund impact using similar studies conducted in the past as a baseline.

SIGNIFICANT ISSUES

The Office of the Superintendent of Insurance submitted the following agency analysis on the need for further research into Long Term Care Insurance (LTCI):

In the past decade, the LTCI market has grown from covering less than three million lives to now covering more than seven million lives nationwide, which shows the importance of LTCI to consumers. The long-term nature of LTCI creates a lot of uncertainty in pricing the product, because of the need to estimate costs decades in advance. The multitude of factors that affects the cost of long-term care include costs of care, life expectancy, population health, policy lapse rates, etc. In simple terms, it is very difficult to predict how many policyholders will choose to keep their policy, what percentage of policyholders will eventually go on claim, how long those claims will last, and how much they will cost. The unfavorable combination of these factors has resulted in greater premium increases being imposed on policyholders who have been paying premiums for decades and do not want to compromise on the protection they have procured for long term care expenses.

On the other hand, it is argued that not approving the necessary rate increases may lead to insurance company insolvencies, reduced benefits for policyholders, and the collapse of the LTCI market altogether. LTCI is still somewhat of a niche market, insurance pooling is done on a nationwide basis, and when one state rejects the required rate increases, the residents of states that have approved them end up subsidizing the residents of states that haven't. As a result, there's significant pressure from other states to review and approve LTCI rate increases in a more uniform manner.

Despite a growing need, only about 40,000 stand-alone individual LTCI policies existed in 2020 in New Mexico. In addition, the number of insurers offering the coverage has diminished from slightly over 100 to about a dozen today. Less than half of a percent of employers offer LTCI. These numbers show that the LTCI market is not healthy, and New Mexico policyholders are at risk of LTCI becoming unavailable and/or unaffordable unless some sort of solution is implemented.