BARRY J. FISHER

CSA, LTCP, is vice president and chief marketing officer of Republic Marketing Group, Inc., a national distributor of long term care insurance products based in Texas. He has developed "The Less Than Lifetime Solution Calculator" and, for the past two decades, has been a well-known figure in the California health insurance field. He was the founding president of the American Association for Long-Term Care Insurance and a past president of the California Association of Health Underwriters.

Fisher can be reached at ***barry @rmgltci.com****.*

So You Think LTCI Is Expensive? *Compared To What?*

One of my agents, who gets referrals from a home care service provider to the children of his patients, relayed the following story to me the other day. The home care provider asked the agent what a typical long term care insurance policy would cost a client in his mid-fifties, and the agent replied somewhere between $3,000 to $4,000 per year.

The home care provider responded, "That's cheap!" This atypical response should really come as no surprise, since this provider of long term care services has context. He understands the real cost of care and immediately sees the value proposition of long term care insurance.

Creating the appropriate frame of reference for clients is one of the missing elements in most agents' repertoire.

Context Creates Clarity

An insurance agent in the Los Angeles area (I'll call him Morrie) advertises himself and term life insurance on a local talk radio station. The on-air celebrities extol this gentleman's virtues and the products that he's selling. I have priced this sort of air-time, and I can tell you that based on the time slots, frequency and talk-host promotion, this agent is spending tens of thousands of dollars per month on this advertising. It must be working for him, because he has been doing it for well over a year.

Part of the commercial has the on-air pundit saying something like this: "Morrie is my life insurance agent and he says you should have about 15 times your annual income in term life insurance." I have been in the life and health insurance business for 30 years and have heard many methods and formulas for determining one's "need" for life insurance protection. Most have some merit, but they are all merely formulas: educated guesses at creating some sort of target or context for discussion and decision.

Morrie's formula is perfectly suited for the baby boomer consumers who listen to this radio station. It is straightforward, clear and understandable. Because the respected on-air hosts are spokespersons for him *and his formula,* coupled with the frequency and credibility of radio advertising, Morrie has impressed upon hundreds of thousands of L.A. talk radio listeners that they ought to have 15 times their annual income in term life insurance. My guess is that unless Morrie enjoys throwing money down a rat hole, he is making a fortune selling term life insurance to thousands of new clients.

The take-away here is that Morrie has created a clear context for decision-making by answering the question, "How much life insurance do I need?" After hearing these commercials for months I realized that I needed to do the same thing for agents and consumers for long term care insurance. So I sat down to develop my own formula or recipe, based on identifiable factors, for how much long term care insurance one needs to buy today to have retirement security tomorrow.

The Formula

I'm a pretty fair cook. You know the kind: a little of this and a little of that makes a pretty appetizing meal. I stay away from most recipes because I'm just having fun and I enjoy the variations and different tastes from meal to meal. Great chefs, however, always use a recipe. They're looking for good results and consistency. When it comes to term life insurance sales, Morrie is a chef; he creates contextual expectation with his prospective clients by delivering a clear and consistent message pertaining to their needs. *When it comes to selling long term care insurance, are you a cook or chef?*

When I sat down to create my recipe for describing the need for long term care insurance, I first thought about what I was trying to create. The answer: Prospects who get it. I want consumers to have a clear picture—in dollars and cents—of the likely cost of long term care when they are most likely to need it. What ingredients did I use?

- **Current cost of care in the client's geographic area.** For this, I use the annual MetLife Mature Market Institute survey of cost, high semi-private rate, and then annuitize it to a nice round number. This is my baseline or primary ingredient.
- **Five percent compounded inflation protection.** Based on information from the U.S. Bureau of Labor Statistics, I explain that the historical rate of inflation in the LTC sector is typically 6 percent, but that I'm being conservative. What I don't want is to create a problem that clients feel they can't solve; let's not add too much leavening to the loaf of bread that we're baking.
- **Client's current age.**
- **Likely age of first claim (83 to 85).** This is based on my conversations with insurance company claims departments and pricing actuaries.
- **Typical claim length of four to five years.** This is based on the 2004 Milliman Actuarial Consultants study of actual claims paid by the major insurance companies.

Here's how I mix my ingredients together using the Los Angeles area as an example.

"Mr. Prospect, based on a recent survey by the respected MetLife Mature Market Institute, the annual costs of long term care in this area range as follows:

- Nursing Facilities—$47,000 to $117,000.
- Assisted Living Facilities—$3,000 plus add-ons.
- Home Care—$10 to $25 per hour, but based on my own research, $20 to $25 seems typical.

"Based on these ranges, most would agree that in today's dollars a good baseline for cost of care is about $75,000 per year.

"Now according to the U.S. Bureau of Labor Statistics, the historical rate of inflation in the long term care sector is just under 6 percent. However, since I would rather give you a conservative picture of what you are facing, my formula uses 5 percent. This means that your annual cost of care will double every 14 to 15 years.

"When are you likely to need care? While you could need it tomorrow, insurance companies predict that your first claim will typically occur between age 83 and 85. If this holds true for you, the annual cost of care when you are likely to need it will be about $280,000.

"Finally, based on a recent report by a prominent actuarial firm on actual long term care claims, you could expect to need care for four to five years. This means you will need to have $1.0 to $1.3 million set aside to secure your retirement lifestyle. You will need to have an identical amount set aside for your spouse. *Where will the money come from?"*

Does my formula accomplish the same result as Morrie's does for life insurance? You bet. In recent consumer tests, clients immediately get the picture. At a recent consumer presentation I conducted, after saying these exact same words, three members of the audience stood up and said, "I have already purchased long term care insurance. Now I finally understand why!" You can rest assured that these folks will not hesitate to pay their next premium.

What has happened here? We are providing consumers with a clear context for decision-making. Now they can choose how to handle their problem. Should they try the "do-it-yourself" method (save, invest and hope they are successful) or transfer the risk to an insurance company? My guess is that, just like the home care provider I mentioned earlier, they will immediately see that the $3,000 to $4,000 per year premium that I'm proposing looks like the bargain of the century!

I have also accomplished something else. I have changed the focus of comparison. Most agents and consumers get lost in the miasma of benefit choices and price comparisons that they feel obligated to investigate. Now I've got a prospect who is comparing the cost of care to the cost of either transferring the risk or doing it themselves. This is a battle that can easily be won for the client's benefit. Additionally, if the long term care policy comes back issued select (standard) as opposed to preferred, the client will still see the clear choice in front of him. Long term care insurance is their answer despite a 20 to 25 percent cost differential.

So what are the ingredients for successful long term care insurance sales? **Create a realistic picture of the actual cost of care when the prospect is likely to need it, and then give them a clear choice of how to handle it; do-it-yourself or transfer the risk.**