Long-Term Care

Where Perception Meets Reality with Long Term Care Insurance

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For years, cost has been the main reason that consumers didn't purchase long-term care insurance. In the past, I have said that this objection comes from a lack of understanding of the true economic and personal impact of the long-term care risk, the actual benefit that the LTC policy provides, and the premium.

Several trends have exacerbated this "too expensive" perception. New business premiums have gone up because of carrier pricing practices, statutory rate stabilization, exceptionally low LTC policies lapse rates, and an extended period of historically rock-bottom interest rates. The ever-increasing cost of care causes us to present higher daily benefits, which also drives premiums higher. Since these increases have outpaced consumer price inflation, they have exaggerated premiums relative to the policy's perceived value. The industry has failed to simplify the LTC product so that agents can explain concisely what they're selling and consumers understand what they're buying. Industry reports have confirmed a significant downturn in LTC sales and many of us are wracking our brains for solutions.

One way to untie this knot is to sell lower levels of benefits. But, what would you choose to reduce? You could trim down the daily benefit, but frankly, this is where the rubber meets the road at claim time. By pegging the daily benefit to the actual cost in a specific area, your client gets immediate relief from spending money when they go on claim.

You certainly cannot eliminate the 5% compound inflation protection. This would make the daily benefit (and policy) you have sold virtually worthless when the client needs protection the most.

How about increasing the elimination period? This would work if your clients want to self-insure a big piece of the early claim, but frankly, it doesn't make a whole lot of sense from the present value of money perspective. Also, if you were going to roll the dice, would you rather bet on self-insuring the beginning of the claim or the potential end of the claim?

This leaves the benefit period as the last significant moving part in the policy. How about reducing the benefit period to make the policy affordable? After all, recent research by Milliman Consultants and Actuaries presents some evidence that lifetime benefits may be unnecessary for most consumers. The problem is that clients and agents love their lifetime benefits. It provides the value-added of peace-of-mind; your benefits cannot run out, even if you have the dreaded 10-year to 20-year Alzheimer's event. Without this extra, many consumers just decide to take their chances.

My questions are these: Isn't some long-term care coverage better than none? When insuring a risk, do insured's always indemnify the entire risk they perceive? Doesn't some coverage offer much of the caregiver, economic, and personal flexibility values that lifetime benefits provide? The answers are yes to all, which leads us to the next question. How do you illustrate less-than-lifetime benefits so that consumers perceive value?

The answer lies within the integrated pool of money products that we offer. Some agents get so hung up on the daily benefit that they forget that what they are really selling is a pool of money that will be available to protect the insured's retirement income, cash flow, and lifestyle. As the chart shows, if sold properly, long-term care insurance offers great value, even to those who do not purchase lifetime benefits.

By using the integrated pool of money, you can illustrate the present and future

"The Less Than Lifetime Solution"
Age 55

	Solution 1	Solution 2	Solution 3
First Year Benefit Pool	$164,260 $150/Day 3 year benefit period	$262,800 $180/Day 4 year benefit period	$438,000 $200/Day 6 year benefit period
Future Pool of Money–Age 81 (5% Compound Inflation)	**$584,483** Asset protection available if claim occurs 26 years after purchase	**$958,928** Asset protection available if claim occurs 26 years after purchase	**$1,681,457** Asset protection available if claim occurs 26 years after purchase
Elimination Period	90 Days	30 Days	30 Days
Coverage Type	Comprehensive	Comprehensive	Comprehensive
Annual Premiums			
Preferred	*$1,593*	*$2,414*	*$3,258*
Standard	*$1,770*	*$2,682*	*$3,620*
Self-Funded Option At 6% After Tax ROR			
Annual Contribution	*$8,046*	*$12,285*	*$19,828*
Lump Sum	*$121,110*	*$192,865*	*$318,434*

"The Less Than Lifetime Solution" illustrates the retirement income and asset protection value of long-term care insurance purchased with benefit periods that are less than lifetime. The starting pool of money increases annually by a factor of 5% compounded annually so that when the insured requires care at the likely age of 81 their total insurance protection grows to accommodate their needs and increasing costs. The chart also provides a clear benefit-to-cost relationship between the premium and value of the benefit when the likelihood of needing care is greatest. The premiums illustrated are based on product currently offered in the state of California. The benefits illustrated are provided for overview purposes only. One should always refer to a specific carrier's Outline of Coverage, underwriting guidelines and premium structures when considering a specific consumer's need for long-term care insurance coverage.

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financial value of benefits. This allows clients to see that their premiums provide valuable protection. You can extrapolate the future value of the benefit to any age they believe that they will need care. It is just an example, but it allows the consumer to see what they are purchasing with their premium. It is simple and effective. You could even do this calculation on a yellow pad.

After you've made this type of broad stroke presentation, ask the 55-year-old client, "How much would you have to set aside annually, after taxes, to accumulate $1 million by the time you are 81? The answer is shocking! As you can see from the chart, the answer is $12,285 per year -- thousands more per year than the policy premium.

Do insured's really need lifetime benefits? The Milliman study reveals that the agents' bias towards lifetime benefits is creating the perception that only a Cadillac will do, when many consumers can only afford a Chevy. In the perfect world, everyone would be behind the wheel of a Cadillac. However, in the real world the vast majority of us would be walking if not for a car like the Chevy! The Milliman study reveals that only 10% of people over 65 own policies. Many holdouts say they are intimidated by high costs and the bewildering array of benefit levels, deductible periods, and other features.

In the brave new world of long-term care insurance sales, agents will need to answer the following questions for the client:

- What is long-term care?
- Where is it provided?
- What is the cost of care today and what it will be when one is likely to need care?
- What are the primary features of the long-term care insurance policy (There are really only four or five.) How does one qualify for the benefits?

Agents will also have to explain the benefits as a pool of money and how the premium transforms into valuable income protection when the client is likely to need care. I contend that this conversation should last less than 25 minutes. ❑

For more information about The Less than Lifetime Solution‘ and other creative solutions to long-term care insurance brokerage needs, e-mail barry@bjfim.com, or visit www.bjfim.com.

Long-Term Care

Interviews Can Make or Break Your Client's Chances of Getting LTC Coverage

by C.J. Laugharn

Imagine you just found out that your long-term care insurance applicant was declined. After investigating the matter, you found that it had nothing to do with her medical history; she simply failed the face-to-face interview. What seemed to be a healthy and insurable prospect has become a major disappointment. Your client is unhappy, she may question your credibility, and you lost a sale!

Agents work hard to explain concepts about long-term care (LTC) and long-term care insurance to their clients. They establish the need, medically pre-qualify them, design a plan, and gain a commitment. But, the sales process does not stop once an application is submitted to the carrier.

The underwriting process is a "sale" of another sort. The underwriter must be willing to "buy" the client in order for the client to buy the insurance. The agent is responsible for advising applicants how to improve their chances of getting a favorable underwriting decision.

Some healthy, younger applicants can qualify simply from the information on their applications, but most applicants have to submit to a phone interview or face-to-face assessment, depending on age and the carrier's underwriting requirements. This interview can make or break the sale depending on how it is conducted and how the applicant responds. This article will explain what those interviews are about and how you can minimize the chances of hearing the two most dreaded words that come from a LTC underwriter, "applicant declined."

Face-to-face assessments are in-person interviews that can be conducted in the applicant's home or office. The interview is conducted by a healthcare professional, typically a licensed nurse. The interviewer asks about the applicant's medical history and makes observations about physical functionality. The examiner uses verbal exercises to evaluate memory and cognitive abilities and asks questions about lifestyle. Although these interviews vary by carrier, they are commonly required for applicants 70 or older and usually last about an hour. They may also be required if an applicant's medical history or the phone interview warrants further review. The insurance company typically bears the cost of the interview.

The following example illustrates problems that can occur as a result of the face-to-face assessment: Earlier this year, an agent was advised of a decline based on the face-to-face interview. The interviewer's notes showed that the applicant failed a "word recall" exercise. The assessor also observed poor concentration abilities and a general evasiveness on the part of the proposed insured. The case was declined because of "cognitive issues."

After speaking with the applicant, the agent learned the assessor had been late for the appointment, forcing the applicant to rearrange his entire afternoon schedule. An already uneasy situation became unnerving, leaving him little chance of having the basic concentration and time to pass the generally simple interview. Rather than giving the interviewer his complete attention, the applicant was distracted and eventually annoyed by the seemingly elementary nature of the memory evaluation. The agent failed to prepare his client for the types of questions he could expect.

The assessor's tardiness did not get this interview off to a positive start and the applicant's lack of preparation quickly turned it into a negative situation, greatly reducing his chances of selling himself to

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