

From Main Street to Wall Street

***An Insider's View of Opinions Shaping The
World of Long-Term Care Insurance***

For Agent Training Only

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Excellence in Life, LTCi and DI Brokerage

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Today's Conversation

- ▶ **Reality and opportunity**
 - *Operating in reality = EMPOWERMENT*
 - *THE ELEPHANTS in the room*
- ▶ **Pressure on the insurance industry**
 - *Long-term care and Life*
- ▶ **What are consumers thinking and worried about?**
- ▶ **Looking out on the horizon what can we expect?**
- ▶ **Changing the way you sell long-term care insurance**
- ▶ **Multi-life (small group) long-term care insurance**
 - *A most powerful tool!*

Elephants In The Room

Taxmageddon

Public
Debt

Entitlements

Election



Euro
Breakdown

0% Interest

Demographic
Shifts

Public & Private
Pensions

ObamaCare

Shrinking World of LTCi

Friday, March 9, 2012 3:46 PM New York 39° 17°

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Family Finance | Investing | Retirement Planning | Taxes | Columns & Blogs

TOP STORIES IN Personal Finance


Countdown to a Tax Hike

Should You Wade With a Windfall?

WEEKEND INVESTOR | March 9, 2012, 9:06 a.m. ET

Long-Term Care: What Now?

Article | Stock Quotes | Comments (71)



Prudential Financial plans to guttrak applications as of March 30 for individual long-term-care policies.

Interest rates. The insurer plans to continue offering group long-term-care coverage through employers.

People typically buy long-term-care coverage in their 50s or early 60s and often pay premiums for 20 or 30 years before making a claim. Insurers build reserves for paying those claims through investment income, mainly from high-quality bonds.

Now, with such bonds offering low yields and aging policyholders making more claims, insurers are halting sales, asking state regulators for permission to raise rates for existing policyholders, or both.

What You Get
Long-term-care benefits based on a \$150 daily benefit, three-year benefit period, discounts for good health and being married, and 3% compound inflation protection.

Premiums collected for policies sold in 2011 increased 4% from 2010, even as the number of buyers dropped 2% to 230,000, according to Unum. Coverage costs about \$2,250 a year on average for a 55-year-old couple or \$4,660 a year for a 65-year-old couple, according to the American Association for Long-Term Care Insurance.

- ▶ CNA
- ▶ Lincoln Benefit
- ▶ Allianz
- ▶ Guardian
- ▶ Minnesota Mutual
- ▶ MetLife
- ▶ CUNA
- ▶ UNUM
- ▶ Prudential
- ▶ American General

All Gone!

Leading LTCi Actuary

- ▶ **Look for more carriers to exit traditional market**
- ▶ **Expect more in-force rate increases**
 - *Insurance commissioners are not happy*
 - *Expect more rate stabilization efforts nationally*
 - *More upward pressure on new business premiums*
- ▶ **Non-traditional product growth**
 - *Simple acceleration riders*
 - *TLC/MoneyGuard type plans*
- ▶ **Interest rate environment is stalling annuity hybrids**

Society of Actuaries

“Risk is Opportunity”

National Conversation on Long-Term Care Financing

- ▶ **Products with less benefits**
 - *Co-pays, cheaper inflation options, fewer ancillary benefits*
 - Regulators are resistant to this
- ▶ **Paying for independent providers and family**
 - *California has always led the way in this area*
 - Many states still require various levels of licensing, certification
- ▶ **Genetic testing**
 - *Genworth will ask family history with new products*
- ▶ **Public/private partnerships**
 - *CLASS may be dead but many still think the government has an important role*
 - France & Japan have “robust” public programs

Here's What I Do Know

- ▶ **In 2010 the 10 leading insurers paid \$10.8 million in claims DAILY**
 - *53 increase over 2007*
 - *Average number of claimants during 30 day period = 135,000*
 - American Association for Long-Term Care Insurance 2011 Claims Study
- ▶ **High level of consumer satisfaction with claims payment and assistance from carriers**
 - *U.S. Department of HHS – Long-Term Care Policy Study (2010)*
 - Blind review of claims, conducted by independent auditors, concluded that the “independents” would have approved 5% fewer claims than insurance companies
 - 100% of eligible claims were paid
 - Claims denied due to basic lack of eligibility for various reasons including; EP not met, clinical criteria of policy, provider eligibility and lack of documentation
- ▶ **Total value of a single person's claims still being paid during 2011**
 - *Top six companies*
 - Male -- \$495,500 to \$1,200,000
 - 2 above \$1,000,000
 - Female -- \$616,700 to \$1,700,000
 - 3 above \$1,000,000



Here's What I Do Know

- ▶ **Claims are being paid by companies with frozen blocks of business**
 - *Even one company that's in receivership*
- ▶ **Rate increases primarily on policies issued prior to 1999**
 - *Not necessarily a claims issue*
- ▶ **New rates utilizing extremely conservative assumptions**
 - *Low assumed interest rates for 30 years*
 - *Low lapse rate assumptions*
- ▶ **NAIC and states moving toughening rate stabilization rules**
 - *California just passed AB 999 (Yamada)*
- ▶ **When rates do increase client cannot purchase a new policy with the same benefits for less**
 - *Who knows if they'll even qualify in the future!*

Our Opportunity

AS WELL AS YOUR CLIENTS!

In the foreseeable future, the traditional LTCi products we sell *today* will:

- ▶ **NEVER BE LESS EXPENSIVE IN REAL TERMS**
- ▶ **WILL INHERITANTLY BECOME MORE VALUABLE**
 - ▶ **UNDERWRITING WILL NEVER BE BETTER**

Your clients are not getting any younger or healthier!

Unique to LTCi?

“The Canary In The Coal Mine”



“The problem with LTCi is that it’s an A&H product that is reserved for like life insurance.”

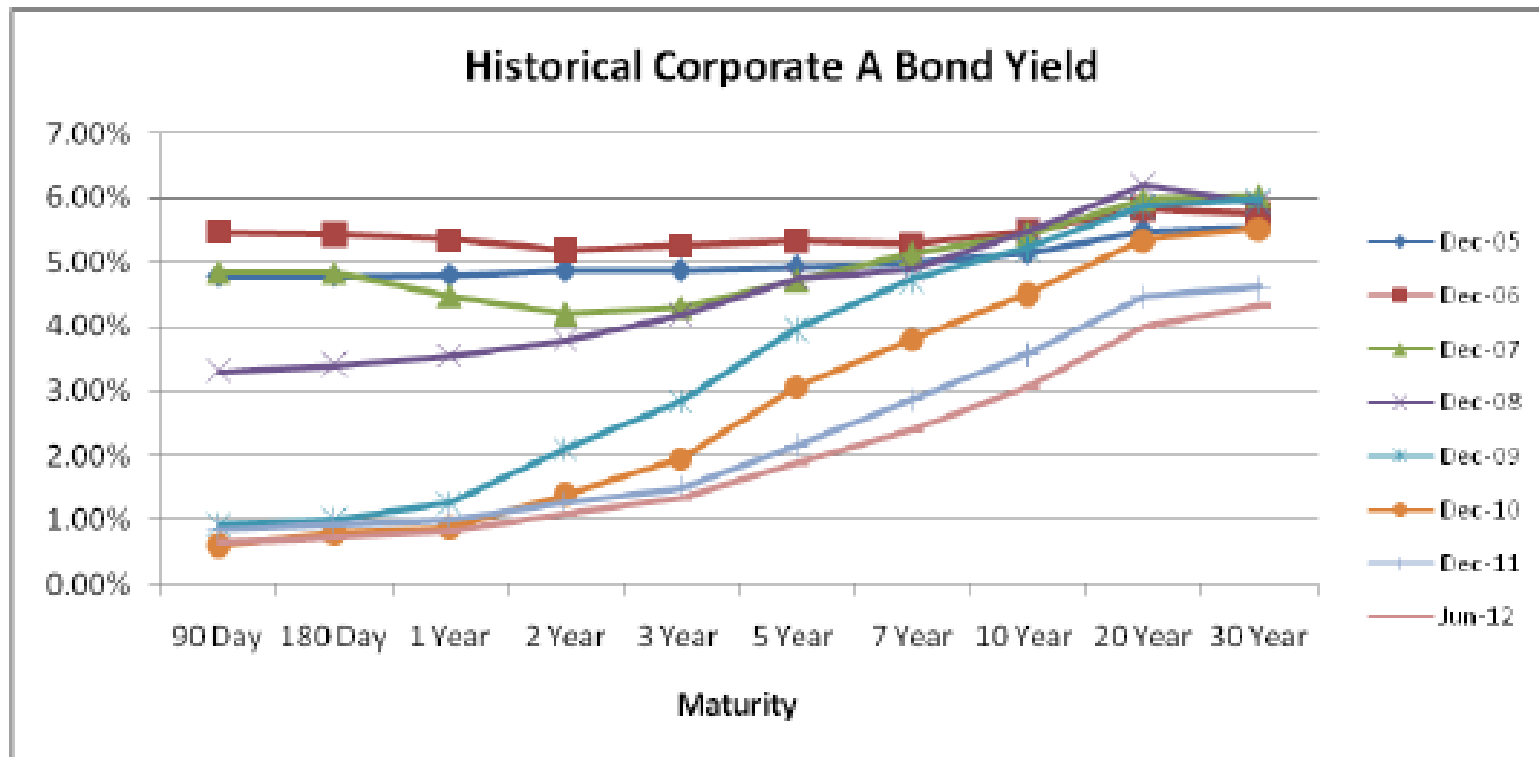
Carrier Gov’t Affairs Insider

The Heat Is On Term Life Insurance

Here, the Carriers Can't Leave But

- ▶ Term life pricing follows LTCi lead
 - *Premium increases are now ongoing in term life*
- ▶ Higher rates
 - *No one wants to be the cheapest*
- ▶ Tougher underwriting
- ▶ Product withdrawals
- ▶ Driven by “the investment environment ... today's yields ... investment returns critical to pricing”
 - *Frank Gencarelli, SVP Sales & Marketing*
 - Legal & General (Banner Life)

THE PICTURE TELLS THE STORY: INVESTMENT YIELD HISTORY



This chart shows investment yield curves. They show yields on corporate bonds, selling at par. On the left are yields for the shortest investments. To the right are yields on the longest, 20 and 30 year investments. Though yields at the short end of the curve have been low for some time, the more recent fall in longer-duration yields is an indication of diminished confidence by the market that rates will rise.

Many experts describe the current interest rate environment as the most challenging they've ever faced, and the future interest rate environment as the most uncertain. Though most believe interest rates will eventually rise, no one knows when, and there are forces (such as Operation Twist) external to the natural market keeping them down. Surely, no one can guarantee today's prices through a "Japan scenario."

Impact on Main Street

Marc Faber, PhD Economics
Gloom, Boom, Doom Financial Newsletter

- ▶ **Money on deposit experiences negative interest rates in real terms**
 - *Low interest rates adjusted for cost-of-living increases*
 - *Driven by the Federal Reserve's artificially low interest rates*
- ▶ **Promised government retiree benefits unlikely (in real terms) due to rapid growth in 65+ population**
 - *Look at European demographics (birth rates)*
- ▶ **State & private pension funds are seriously underfunded**
 - *In 2011 the underfunded levels of S & P 500 companies' defined pensions reached and epic \$354.7 billion*
 - *Total unfunded liabilities for private & public estimated between \$1 and \$2 trillion*

Just 40% Expect to Get Full Social Security
Benefits

46% Think Their Pay Will Be The Same A
Year From Now

Just 16% See A Better Future for Today's
Children

Rasmussen Consumer Index

54% Say The Economy Is Getting Worse



Consumer Mindset - 55+

Retirement 3.0 Sun Financial Group

- ▶ Many have not recovered from recession
- ▶ Plan to work "in some manner" five more years
 - *Age 64 Vs. Age 69*
- ▶ Expect less government help
- ▶ Financial peace of mind 6x more important than accumulating wealth
 - *Protecting assets is 5x more important than higher returns*
- ▶ 49% expect to provide financial help to families
- ▶ Top longevity worries
 - *73% -- Serious health problems*
 - *59% -- Being a burden on family*
 - *49% -- Running out of money to live comfortably*

LTCi Can
Mitigate These
Concerns

Consumer Mindset - 55+

Retirement 3.0 Sun Financial Group

- ▶ People seek financial solutions that won't lose value and can help their money go the distance
- ▶ The "ideal" retirement investments or insurance
 - 65% -- *Guaranteed not to lose value*
 - 60% -- *Protects income from market loss*
 - 60% -- *Covers the cost of long-term care*
- ▶ The "ideal" financial advisor
 - 77% -- *Speaks in terms client understands*
 - 75% -- *Listens and understands what's important to client*
 - 72% -- *Protects client from major risk*
- ▶ Planners Vs. Deniers (my terms)
 - *Ageless Explorers*
 - *Cautiously Contents*
 - *Lives for Todays*
 - *Worried Strugglers*

Consumers are Concerned

AgeWave.com & Genworth Financial 2010

- ▶ People are over five times more worried about being a burden on their family than dying
- ▶ *Uninsured medical expenses are the top financial worry among men and women age 55+*
- ▶ Almost two-thirds of people will actually need some long term care, such as home care, assisted living, or nursing home care, after they reach age 65, but only 35% of people believe they will need such care
- ▶ *People rank Alzheimer's as their single greatest fear among disabling diseases in later life*
- ▶ People greatly underestimate the financial, social, and lifestyle impact of caregiving responsibilities
- ▶ *When someone needs long term care, a wide circle of primary caregivers, secondary caregivers, other family, friends, and community members often provide the care and are impacted by the responsibilities*
- ▶ When asked what is most worrisome about being burdens on their family, people told us they are most concerned about protecting their families from the financial pressures of providing for their long term care.

Position LTCi as A Stealth Asset



**Long-Term Care Planning
Is Part of The Calculus of
Retirement Planning**

Options Do Exist

The Gold Standard For A Few

- ▶ *Lifetime benefits*
- ▶ *Pegged to current cost of care*
- ▶ *5% compound inflation protection*
- ▶ *Short elimination periods*
- ▶ *Limited pays*

Something is Better Than Nothing For Many

- ▶ *Don't let the perfect be the enemy of the good*
 - Affordability trumps the perfect
- ▶ *Variety of policies purchased over a lifetime*
 - Traditional & linked
- ▶ *Some level of employer sponsorship*
 - Tax deductible premiums
 - Discounts
 - Underwriting concessions
 - Portable

CONSOLIDATION & REBIRTH

Opportunity Exist
Even In
Tough Times

More Expensive, Fewer Choices Tougher Underwriting

- ▶ Genworth
- ▶ John Hancock
- ▶ MassMutual
- ▶ Mutual of Omaha
- ▶ Transamerica
- ▶ LifeSecure
- ▶ MedAmerica (Simplicity & FlexCare)
- ▶ Linked Product Choices
 - *Genworth, Lincoln Financial, Nationwide, AGLA*



Genworth

- ▶ **800 pound Gorilla in long-term care insurance**
 - *200+ million (est.) new premium in 2012*
- ▶ **Not likely to leave marketplace**
 - *LTCi = 30% of overall company revenue*
 - *Claims experience continues to be good*
 - *In-force premium increases on pre-1999 business only*
 - Primarily due to lower than expected lapses & interest rates
- ▶ **Re-filed products on the way; expect**
 - *Higher premiums, particularly on 5% CIP*
 - *Lifetime benefits – Going, Going, GONE!*
 - *Limited pay benefits -- Going, Going, GONE!*
 - *Tighter underwriting – ALREADY HERE!*
 - Coming attractions
 - *Family history questions*
 - *Paramedical exams*
- ▶ **California – changes are coming!**

The Rest of the Field

▶ John Hancock

- *Back with much higher rates and new benefit plans in many states (Not CA)*
 - Not terribly competitive now but wait for the deck to reshuffle!

▶ Mutual of Omaha

- *Out of California & multi-life (small group)*
- *Higher rates are rolling out across the country*

▶ MassMutual

- *No more lifetime benefits or limited-pay*

▶ Transamerica

- *Re-filing higher rates across the country*
- *No lifetime benefits or limited-pay in most states*
 - California is pending

Relative Newcomers

MedAmerica

Blue Cross of New York

B++, A.M. Best

- ▶ **Simplicity I (CA Only)**
 - *Cash benefits*
 - *Individual – tough underwriting*
 - *Price competitive – older product*
- ▶ **Simplicity II (other states)**
 - *Cash benefits*
 - *Individual & multi-life (10 lives)*
- ▶ **FlexCare**
 - *Reimbursement plan*
 - *Individual & multi-life (10 lives)*
 - *Shared Care – 3rd pool of money*
 - *Combo inflation rider*
 - *Flexible benefit design*

LifeSecure

Blue Cross/Shield of Michigan

A-, A.M. Best

- ▶ **Easy to understand product**
 - *Establish pool of money*
 - *Between \$75,000 to \$1,000,000*
 - *Choose monthly benefit*
 - *1%, 2% or 3% of P-O-M*
 - *90-Calendar Day E.P.*
- ▶ **Best future purchase option**
- ▶ **Individual & multi-life**
- ▶ **SIMPLIFIED UNDERWRITING**
 - *3 employer paid lives*
 - *Spouses get simplified underwriting with 10 employer paid lives*

Adapting to New Products

Maximize Leverage for Affordability

- ▶ **Alternative inflation options**
 - *Simple Vs. Compound*
 - *3% Vs. 5% Vs. CPI*
 - *Future purchase options*
- ▶ **Shared Care Benefits**
 - *Third pool is preferable*
- ▶ **Long-term care planning is a process**
 - *May include multiple policies of different types purchased over time*
- ▶ **Insure the front-end of the claim first**
 - *Key on current cost-of-care*
 - *Provide affordable base coverage*
 - *Include benefits that provide for future flexibility*





\$1,000,000 POM TODAY with LifeSecure

Married Client – PNS – Spouse Applying
1% Monthly Benefit = \$10,000 per month

- ▶ **Age 35 = \$106/month**
- ▶ **Age 45 = \$139/month**
- ▶ **Age 55 = \$197/month**

Plan includes Future Purchase Option

Every 3 years insured can choose to increase POM by 15%

No underwriting – Receive offers through age 84

Exercise regardless of # of Options Previously Rejected

Stacking-Up Against 5% CIP

Genworth 

LifeSecure® 

Married Client – PNS Spouse Applying

*\$6,000 per Month – 4 year benefit
\$292,000 initial POM*

- ▶ **Age 35 = \$135/month**
 - *Reaches \$1 million POM @ age 60*
- ▶ **Age 45 = \$299/month**
 - *Reaches \$1 million POM @ age 70*
- ▶ **Age 55 = \$357/month**
 - *Reaches \$1 million POM @ age 80*

Married Client – PNS Spouse Applying

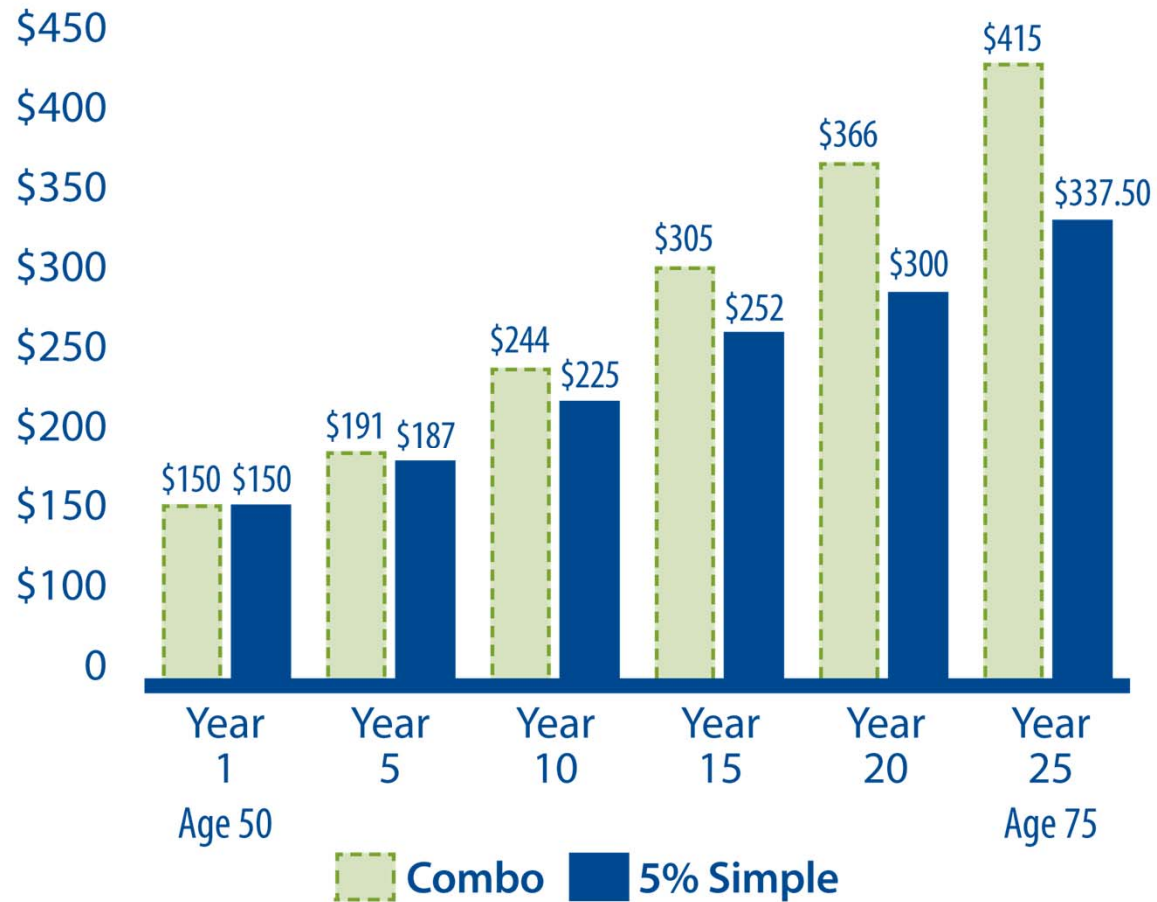
*\$1,000,000 POM Today
@ 1% Monthly Benefit =
\$10,000 per month*

- ▶ **Age 35 = \$106/month**
- ▶ **Age 45 = \$139/month**
- ▶ **55 = \$197/month**

Combo Inflation

- **Increase Daily (Monthly) and Lifetime Maximum Annually**
- **5% Compound Through Age 60**
- **5% Simple Age 61 Through 74**
 - **Based on Total Benefits at Age 60**

Combo Inflation / Growth



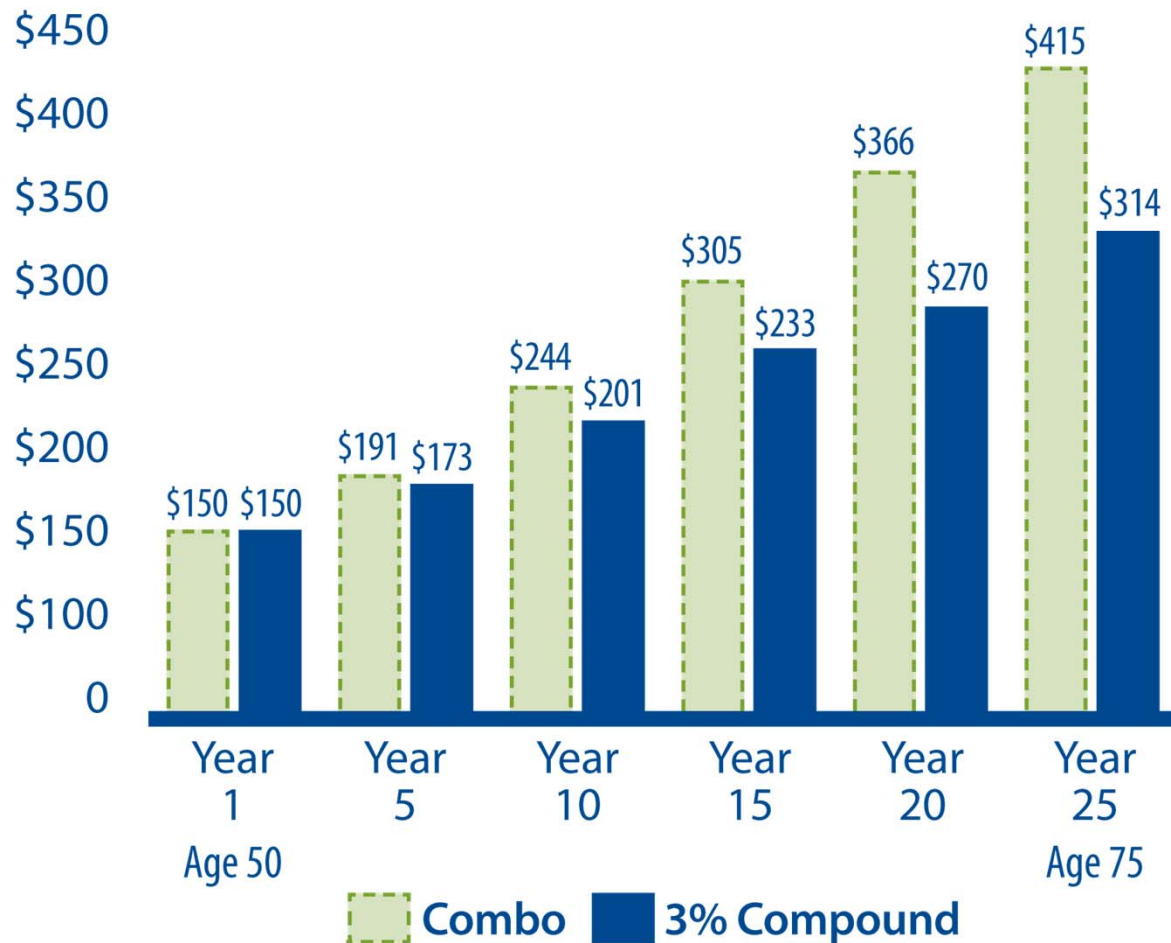
Simple vs. Combo

Compared to 5% Simple Inflation

Age	FlexCare Combination	Genworth	Mutual of Omaha
50	\$1,389	\$1,549.37	\$1,789.43
55	\$1,634	\$1,704.65	\$2,148.70
60	\$1,967	\$2,290.87	\$2,543.10

Example assumes a 3 year plan at \$4,500 monthly for all benefits, 100 or 90 day elimination period, individual standard rates, annual premium. Rates quoted in this comparison were obtained from StrateCision.

Combo Inflation / Growth



Compound vs. Combo

Compared to 3% Compound Inflation

Age	FlexCare Combination	TransAmerica	Mutual of Omaha
50	\$1,472.34	\$1,561.60	\$1,694.97
55	\$1,731.51	\$1,813.12	\$1,960.92
60	\$2,084.49	\$2,338.81	\$2,247.47

Example assumes a 3 year plan at \$4,500 monthly for all benefits, 100 or 90 day elimination period, individual standard rates, annual premium. Rates quoted in this comparison were obtained from StrateCision.

Employer Market is Your Best Access Point

- ▶ Tax deductible premiums
- ▶ Tax-free benefits
- ▶ Employer sponsored discounts
- ▶ Simplified or Modified Guaranteed Issue Underwriting
- ▶ Individual policies allows limitless possibilities for plan design
 - *“Gold standard” for owners*
 - *Modest but meaningful benefits for key employees*
 - *Starter plans in place for rank-in-file employees*
- ▶ Employer premium sponsorship is critical
 - *Voluntary is a very difficult sale*

Reasons Why 'Er Should Consider

- ▶ **Good for owners**
 - *For owners of closely-held business "The Need Is Greed"*
 - Tax deductible premiums, tax-free benefits
- ▶ **Simplified underwriting eliminates underwriting guesswork**
- ▶ **Offset to changes/reductions in health care plans**
 - *Key employee retention*
 - *Small cost for a big impact benefit*
- ▶ **Helps employees cope with looming caregiver issues**
 - *Employee/caregivers cost employers BIG TIME!*
 - Absenteeism, interruptions, employee replacement
 - *Problem is bigger for smaller employers*
 - *With aging workforce caregiving for spouses increases*

Why Individual LTCi

- ▶ There is no meaningful *true group* market for long-term care insurance
 - *No UNUM*
 - *No Prudential*
 - *No John Hancock*
 - *No CNA (?)*
 - *Genworth requires minimum 500 lives – very selective*
- ▶ We call it multi-life
 - *You can call it small group if you'd like*
- ▶ Three lives is all you need to get started
 - *The more the merrier – more options for all*
- ▶ Fully vested, individual first year and renewal commissions

Multi-Life Choices

LifeSecure



FlexCare



Transamerica



It All Starts with *“The Question”*

Have you taken
care of your
long-term care
planning yet?



THANK YOU

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