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How Much Is Really Enough?

Guiding Clients In The Repriced World Of Long Term Care Insurance

Is there such a thing as too much long term care insurance? For most of my 20-plus years in the industry I think we've allowed the fear of a catastrophic cognitive claim to answer this question without enough critical review. We've worked our way through several distinct "geological" periods since the introduction of long term care insurance 40 years ago and now we're starting a new one:

- Cenozoic (before 1979): Before my time in the industry!
- Mesozoic (1990-1996): Pre-HIPAA—LTCI was an addition to Medicare supplement insurance.
- Paleozoic (1997-2003): The era of lifetime benefits, 5 percent compound inflation, 10-pay options and high lapse rate assumptions.
- Precambrian (2004-2012): Lifetime benefits became extinct; the era of short and fat, 5 percent compound inflation, some limited-pay and multi-life.
- QEozoic (QE as in quantitative easing) *NOW:* Five percent compound inflation only for the "1 percent," no lifetime benefits, few limited pays, gender-specific pricing, life insurance style underwriting, and higher rates overall.

Needless to say, the Paleozoic period was my favorite, followed closely by the Precambrian. In the former, the pricing differential between lifetime and five-year benefit plans was a mere 15 percent. Five percent compound inflation was priced in a 5 to 7 percent interest rate environment, and actuaries thought LTCI lapse rates would be like those for life and DI.

In the Precambrian period, we overcame the loss of lifetime coverage as an affordable option and substituted shorter and fatter plan designs. We also enjoyed the underwriting leverage offered by simplified issue down to three lives.

Now that we're in the QEozoic Era, insurance companies are trying to eek out a 15 percent return on equity when U.S. Treasury bonds are bumping along in the two percent range and corporate bond rates are only slightly better. Lapses are extremely low, and approximately 60 percent of every LTCI premium dollar goes into reserves for decades. This makes pricing and accurate risk selection a critical challenge.

So why do I think that *now* is one of the best times to be talking to consumers about long term care planning and insurance? Primarily because the risk has not gone away and many Americans have a better understanding of the clear and present danger of needing long term care. In addition, products, pricing and underwriting will not get better in the foreseeable future , and your clients are not getting any younger or healthier.

The fact is that the clients who purchased in the Paleozoic and Precambrian eras are reaping the benefits of being early adopters—regardless of any premium increases they may be experiencing. However, those who purchase in the QEozoic period will likely benefit from pricing that's close to non-can. *Either way, everyone wins when they plan for the long term care risk with some form of insurance.*

Now, the larger question is how do we guide clients in the current era of new products and pricing. Selling lifetime benefits, 5 percent compound inflation protection with a 10-pay thrown in was almost too easy for too long. Now we have to accurately measure the likely risk and create a plausible narrative for individuals and families to plan for the likely, yet maybe not as catastrophic event as we thought. Not only that, we need to create meaningful and affordable coverage for consumers of varying financial means.

As home office actuaries sharpen their pencils to create profitable long term care insurance products for their companies, insurance agents and financial advisors need to hone their recommendations to match the products we have to the needs of their clients. This requires rethinking conventional wisdom. As you may have guessed, I have some thoughts in this regard.

In the mid-2000s my faith in lifetime benefits for all was debunked by a study conducted by Milliman (one of the leading actuarial firms) and reported by the American Association for Long-Term Care Insurance. The research found that roughly 98 percent of LTCI claims were less than five years. Thus, while a catastrophic 10-year Alzheimer's event was still possible, it wasn't probable for most individuals.

Last year Milliman conducted a follow-up study of nearly 77,000 claims for the Society of Actuaries. Of all benefit pools studied, only 14.1 percent of insureds exhausted their benefits, and only 40.1 percent of all benefits available were utilized.

This leads me to believe that while all of those (including me) who purchased big benefits in the late 1990s and early 2000s have "Rolls-Royce" coverage, we may have purchased more peace of mind than is actually necessary. I'm not suggesting that we reduce our current benefits, because we were early adopters with policies priced in a different era. We won, but we've also been paying premiums for many years.

The other question we need to ask is: ***Have we been selling too much to too few?*** According to LIMRA, the average annual pre-insured premium is just under $2,400 per year (in my agency we're closer to $3,500). This indicates that we've done a pretty good job of selling to the affluent market, but we're not doing well with the middle market (those who can afford an annual premium of $1,000 to $1,500). Yes, we are getting some of these folks at the worksite, but I don't think we're packaging our recommendations appropriately for this underserved market.

I am proposing that we step back from the blackboard and ask ourselves the following soul-searching questions:

- In today's dollars, what sort of financial risk are we actually dealing with?
- Do we really need an insurance policy to cover the entire risk?
- What is the most cost-effective way to plan for inflation?
- What sort of incremental approaches can we use to piece together solutions for more consumers, particularly the middle market?
- Isn't having some coverage in place better than nothing?

I hope to answer these questions for you in the coming months. Your thoughts and comments are most welcome.