A PATH

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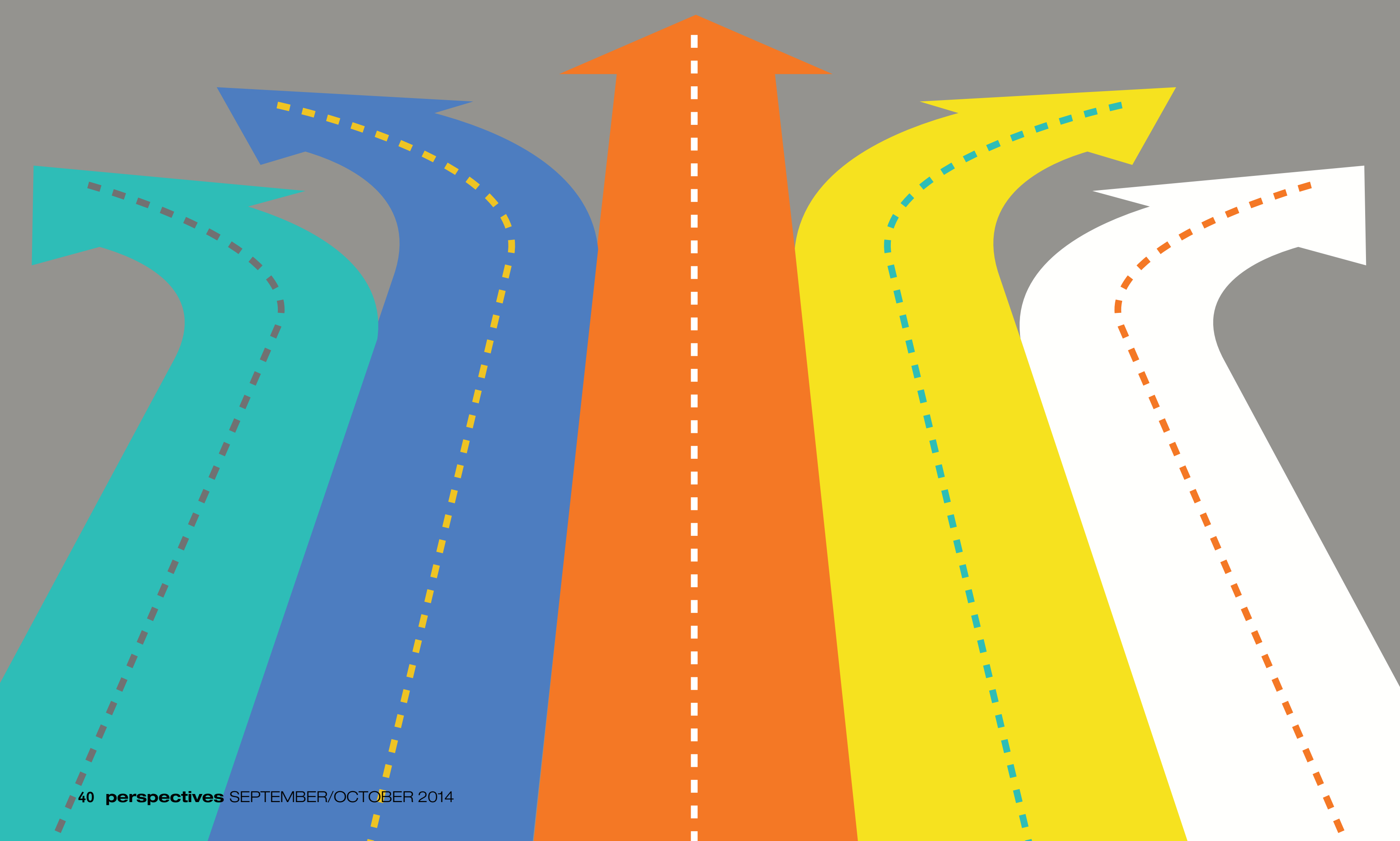

FORWARD

Successful LTCi marketing and sales in the brokerage general agent ("BGA") environment continues to defy conventional wisdom. How can such an obviously growing and persistent risk resist all our valiant efforts to protect American families?

Let's begin with an inventory of basic questions that have never been adequately answered:

- Why do the vast majority of consumers ignore the need for long-term care planning?
- Why do agents struggle with the LTC planning discussion with their clients?
- Does low market penetration correlate with lack of agent acceptance?
- If consumers and agents ignore LTC planning, whose responsibility is it to pay the costs of long-term care?
- Have we been selling too much long-term care insurance to too few?
- Have we done a good enough job of quantifying the long-term care risk?
- Is the long-term care insurance sale about protecting income and assets, or caregiving?

There has been much handwringing recently in the traditional long-term care insurance arena. Hardly a week goes by when we don't receive notice of in-force premium increases or new product introductions with higher premiums and lower benefits. Much of this is due to re-pricing in the low-interest-rate environment, and insurance companies assessing actual claims experience and their appetite for risk.

Over the past two decades, we have lived through the Roaring '20s of long-term care insurance. It's been a great run, but now it's time to soberly reflect on the next generation of long-term care planning solutions. We've been through this before with non-can disability insurance. In the not-too-distant past, the market consolidated quickly, and policies with liberal definitions gave way to products that were built and priced for viability in new times. There were plenty of Chicken Littles back then, but agents who sold those older policies will tell you how fortunate their clients are to have them now. The same is true of the long-term care policies we've sold over the past 20 years, and will continue to be so with the policies we offer today.

The good news is: help is on the way. For the past seven years, the Society of Actuaries has sponsored a *Think Tank on the Future of Long-Term Care Insurance*. This eclectic group of academics, actuaries, regulators, home office executives and marketing professionals bring divergent viewpoints to the long-term

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care funding problems our society faces. We are both members, and Ron served as Co-Chair during the most comprehensive research project ever conducted on finding a path forward, called *Land This Plane*.

The Long Term Care and the Forecasting and Futurism sections of the Society of Actuaries conducted research using the Delphi method, which allows respondents to anonymously take positions, explain their rationale, and react to opposing views. As the study progressed, persuasive ideas gained popularity, and key directions became clear.

The analysis was focused on several macro issues:

- The role of government vs. private insurance;
- The need for social insurance and the future of Medicaid;
- The current regulatory environment; and
- The tendency of regulation to limit more varied and affordable long-term care choices.

Following is a brief review of key findings from the Land This Plane report.

- ***A systemic overhaul of the LTC financing system is needed.*** Our current approach, both public and private, is disjointed and haphazard. It is critical to focus on available resources and to address issues of affordability. Emphasis must be on accepting personal and family responsibility. Our new approach must be sustainable over time. There are many moving parts to a successful resolution, but at the heart of them are training, education and product innovation: exactly what the brokerage community does best. There are no easy answers, and we must take a comprehensive approach.
- ***Private insurance needs to be part of the financing solution.*** All panelists agree that private insurance is essential in any well-functioning long-term care financing system. Government-heavy solutions raise the specter of increased cost, poor results in other Federal health care programs, and the obligations of increasing entitlements. That said, coordination between public and private options should be encouraged, yet few could agree on the details.
- ***Social Insurance is needed as part of the solution.*** This is the most surprising finding of the research project (81% agreed). The problem is simply too big for a private or public solution alone. Each sector has a significant role to play. There will always be options for those with greater assets to leverage the LTC risk, just as for any other risk exposure. For those with fewer resources, some form of co-insurance can be made available through a public and private partnership, with each doing what they do best.
- ***The government needs to take an active role in the LTC financial solution.*** A vast majority of respondents agree that government must be part of the solution, particularly through consumer education, incentives to encourage planning, and a safety net for the truly needy. The government should take the lead in reforming current programs such as Medicaid, and in standardizing parts of the long-term care delivery system. While panelists want the State and Federal governments to facilitate a stable and level playing field, persistent concerns over funding and administration were voiced. One interesting idea was for the government to create incentives for insurance companies to expand private-sector solutions.
- ***Consumer education and tax incentives are critical to the solution.*** There was overwhelming support for a government-sponsored education campaign. It was recognized that Americans have over $7 trillion in personal qualified savings. These tax-deferred savings should be emancipated on a tax-free basis, to allow consumers to pay for qualified long-term care expenses. Minor adjustments for withdrawals from IRAs, 401Ks, etc. for qualified long-term care premiums and expenses would create additional funding for many. Allowing long-term care insurance into employer-sponsored cafeteria plans, and providing tax credits for caregiving expenses should be reconsidered. Although tax incentives are not revenue-neutral, any loss in government income may be offset by Medicaid savings.
- ***The Medicaid program is overdue for a major reform.*** Panelists consistently highlighted Medicaid's role in crowding out personal responsibility in long-term care

planning choices. Rules must be strengthened to prevent people with significant assets from shielding them to allow access to Medicaid for anyone but the truly needy. For those truly in need, respondents felt Medicaid should promote the most cost-effective services over requirements for facility care.

- ***Incentivizing personal and family responsibility should be part of the solution.*** Emphasizing personal responsibility and incentivizing family participation in long-term care planning was high on the list for most panelists. Tax credits for paid long-term care services and better access to community-based caregiving could reduce the use of more costly formal care settings.
- ***LTC regulations and legislation need substantial revision.*** NAIC guidelines and state partnership plans were originally designed for consumer protection. However, many regulatory requirements have become impediments to product flexibility and strategies designed to reduce cost. Instead of focusing on the central risk and enabling coverage for as many consumers as possible, regulations have focused on mandates for benefit amounts, elimination periods, inflation protection, and administrative details.
- ***Improvements in LTCI products, marketing, and sales are needed.*** If the long-term care planning conversation continues to be optional, sales results will continue to languish. Agents need to stay current on the proliferation of hybrid and linked product alternatives being developed. These options provide an exceptional opportunity to make long-term care planning a standard component of professional insurance and financial planning practice. Top-notch BGAs will make it their mission to educate agents on the variety and suitability of new products as they appear.

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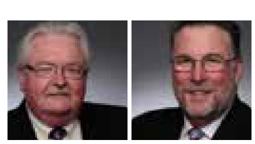
We recognize that traditional long-term insurance options are changing. However, this does not signal the beginning of the end of long-term care planning. In fact, we see a broadening array of choices that will work hand-in-hand as consumers engage in a lifetime of long-term care planning. Hybrid and linked product solutions, *along with traditional LTCi*, provide the life brokerage community with new revenue opportunities based on doing the right thing for agents and consumers.

The Society of Actuaries calls its quarterly magazine *Risk is Opportunity*. The long-term care risk in America is growing day by day. Are you ready for the opportunities?



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