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Healthy Choice

Long-term care insurance's re-emergence offers a promising product for agents.

by Hersh Markusfeld and Jan Soppe

The long-term care insurance industry is now emerging from a difficult decade where negative public perceptions have been fueled by headlines about rate increases and insurers leaving the sector.

But digging beneath the headlines reveals that many of the perceived negatives are now history, and most of the major challenges are behind the industry. In reality, the choices available to consumers—and the opportunities for professional agents—have never been better.

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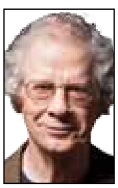

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For starters, there's been a shift in industry leadership. The LTCI industry shake-out has seen the emergence of new leaders whose pricing is based on more credible and realistic assumptions. Many new LTCI products are consumer-friendly, a broad array of policies that reflect consumers' wants and needs, especially their strong preference for home health care.

Huge unmet consumer long-term care needs in the future have become a significant worry as the leading edge of the baby boomer generation approaches retirement age with increasing concerns about outliving their assets. And major government and LTCI industry initiatives are promoting consumer awareness, while the personal experience of millions of unpaid family caregivers is fueling interest in this product.

There are emerging work site opportunities as well. Employers of all sizes want agents' help in understanding the Community Living Assistance Services and Supports Act, and small companies—a natural entry point for LTCI agents—are an untapped market.

> **Key Points**
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> ▶ **The Situation:** The long-term care sector is overcoming its problems and is re-emerging as an appealing insurance product.
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> ▶ **The Background:** Only about seven million Americans currently have long-term care insurance.
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> ▶ **What's Next:** Agents who promote LTC as a financial security product will benefit from its consumer-friendly features.

Agents' credibility and reputation are on the line when recommending a carrier. A key question for agents who want to sell this coverage today is one of trust: "What's in the best interest of my clients who not only want an affordable policy now, but are concerned about what will happen to their premiums, and the insurer, years into the future?"

Here's what agents and buyers should look for in a carrier:

Commitment to the market. The chart below demonstrates a dramatic shift in the LTCI landscape, where half of the 2010 Top 10 carriers are mutuals, compared to none in 2000. Looking at trends in California, the most populous state, 11 of 18 insurers that continue to write this business are mutuals/fraternals, while 59 of 60 insurers that no longer write it are stock companies, according to the California Department of Insurance. These trends suggest that mutuals are better positioned than stock companies (which face shareholder and/or parent company pressure for short-term profits), to remain committed to the LTCI market in periods of economic uncertainty.

A record of pricing integrity and rate stability is also essential in deciding which carriers to represent. By now, most early pricing assumptions have been corrected, especially the costly mistake made by the entire industry in overstating lapse assumptions. The resulting corrections triggered a series of ongoing rate increases that added another challenge for agents in terms of prospecting and policyholder retention. In contrast, pricing today is based on a much larger base of credible and projectable lapse assumptions and claims experience, especially at later policy durations or higher ages.

Investment return, which places pressure on profit margins, according to Ant Re, a consulting firm specializing in product development for living benefits. "It would require additional premium of 10% to 15% at older issue ages, and considerably higher increases at younger issue ages, to offset a long-term 1% reduction in investment earnings," said Andy Castillo, a principal at Ant Re. Today's higher premiums for new policyholders reflect insurers' improved position to price their products on a more realistic, going-forward basis.

In evaluating an LTCI policy, agents and buyers should remember that, no matter what the client's financial situation, home health care is the name of the game. It's more cost-effective than institutional care, and featuring home health care as a policy benefit helps correct an enduring consumer idea that LTCI is "nursing home insurance."

A January 2010 Harris Interactive survey revealed that 78% of Americans prefer to receive care in the home, confirming that most people want to "age in place" for as long as possible. Consumers will prefer policies offering attractive options regarding where care is received, along with easy and flexible access to home health care and minimal requirements for claimants facing a stressful LTC event. User-friendly features to look for in a policy include cash paid for informal care delivered by family and friends, and 0-day elimination for home health care.

Another attractive feature for the age 50 to 60 prime target market is a paid-up option—clearly a positive for people concerned about outliving their assets—as well as rate increases in their advanced years.

A paid-up policy also makes sense for couples: 85% of women over age 85 are widows, compared to 45% of men; and for couples age 65 today, the chances are 50% that one will live to age 92, the Society of Actuaries reported last year.

A Growing, Unmet Need

Americans are living longer, which is good news—although advanced age increases the likelihood of needing long-term care. How to pay for that care is the question of the day. Fortunately, good answers to this question are more accessible than ever before.

The government has sent clear messages that individuals are responsible for their own LTC costs: the federal employee LTCI program is a voluntary benefit; the CLASS Act was introduced as part of health care reform and explicitly does not provide government funding of benefits; federal and state tax incentives and state partnership programs support the purchase of private long-term care insurance.

To reduce the current widespread reliance on public funding, state governments have cracked down on "Medicaid planning" asset transfers and have continued making cuts in Medicaid-funded LTC services.

Shift in 'Top 10' LTCI Market Leadership: 2000 vs. 2010

Based on annualized premium sales.

2000 Top 10 *Wrote 82% of all 2000 LTCI business*	**Rank**	**2010 Top 10** *Wrote 95% of all 2010 LTCI business*
Genworth	1	John Hancock
Penn Treaty American Corp.	2	Genworth
Conseco	3	Northwestern Long Term Care Insurance Co.
John Hancock	4	Mutual/United of Omaha
AEGON	5	Prudential Financial
CNA	6	Metropolitan Life Insurance Co.
UnumProvident	7	New York Life Insurance Co.
Metropolitan Life Insurance Co.	8	Bankers Life and Casualty
Allianz Life Insurance	9	MassMutual Financial Group
IDS Life Insurance	10	Berkshire Life Insurance Company of America

Note: Mutual insurance companies highlighted.
Source: LifePlans Inc.

With the first of 78 million baby boomers turning 65 this year, only about seven million Americans currently have LTCI—a fraction of the estimated target market in terms of assets to protect, insurability and ability to afford premiums.

One of the largest contributing factors has been people's mistaken assumption that they're already covered for chronic and debilitating conditions. In a 2009 MetLife Institute survey, only 34% knew that neither health insurance nor Medicare will pay for LTC.

Another factor that generates interest in LTCI is consumers' need for financial security. Middle-income Americans are looking for protection for themselves and their families and, as they age, maintaining their standard of living and independence.

Those approaching retirement are rightfully worried about outliving their assets, and yet remain unprepared. Only 9% of respondents age 45 to 54 had "high confidence in their ability to save enough for retirement," according to a Prudential survey conducted earlier this year.

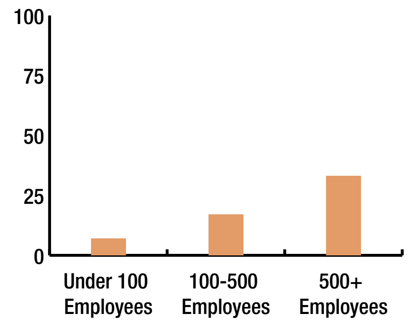
At the Workplace

The workplace is a growing source of LTCI awareness and sales. Savvy agents recognize that any client who owns a business of any size is a work site prospect.

Employers are able to offer these products as a voluntary benefit at no cost to the company, and employees appreciate learning about their vulnerability from uninsured LTC events. Executive carve-outs (employer-paid LTCI for specified employee classes) can be an attractive agent door-opener to employers of all sizes.

As this chart shows, the smaller-employer market, a natural entry point for LTCI agents, is virtually untapped:

LTCI Offered as a Voluntary Benefit



Source: Bureau of Labor Statistics, National Compensation Survey, March 2010

Now that many of the industry's challenges are in the past, there are immediate opportunities for agents who understand that people are looking to buy financial security, not just a product. With this approach, LTCI can be offered by life agents, annuity agents and work site professionals selling voluntary benefits.

Those wanting to enter the market or expand their business can partner with specialists or marketing groups. Sophisticated distributors are well-positioned to support agents with product training, prospect education and sales and marketing support for individual and sponsored-group sales.

Forward-thinking insurers also stand to benefit by meeting consumers' broader financial needs. Stock companies as well as mutuals can appeal to the broad middle market by packaging LTCI with life insurance and annuities. This "one-stop shopping" approach has strong growth potential in both individual and small-employer markets. Although these hybrid products are relatively new, their pricing and performance so far has shown consistent profitability for insurers. According to Tom Penn-David, a principal at Ant Re, "These products are notable for their proliferation at stock insurers and the fact is that over the past 20 years, they have been consistently profitable, in sharp contrast to the performance of many stand-alone LTCI products."

Today, agents are well-positioned to focus on their clients' longer-term interests. They can choose among a number of committed insurers offering consumer-friendly products that provide quality protection now and in the future.

As an industry at the crossroads, the sector is poised to fulfill LTCI's long-awaited promise as a grand slam for agents, insurers, consumers and society at large. BR

Raising Awareness

One of the historical factors in disappointing long-term care insurance sales has been consumer confusion about which benefits are provided by Medicare and Medicaid as opposed to private coverages like health insurance, LTCI, long-term disability or critical illness care. Major initiatives aimed at increasing public awareness of LTC risks and costs include:

- **An LTCI industry-backed** consumer awareness campaign, launched in March, that's designed to help Americans understand that "3 in 4 Need More." The goal is to inform Americans that health insurance isn't enough to cover long-lasting illnesses and disabilities.
- **Mainstream financial planning experts** like Suze Orman are promoting this product as a key component of any prudent financial plan, and advisers to the high net worth market are now reconsidering their long-held and misguided position that affluent individuals don't need LTCI because they can afford to self-insure.
- **The CLASS Act,** to be implemented as early as January 2013, is already stirring debate and generating awareness in the workplace as employers of all sizes look to their insurance advisers to help them understand this complex and changing program. LTCI can be installed as a voluntary program in advance of anticipated CLASS Act requirements.