

Long-Term Care

Barry J. Fisher, CSA, LTCP

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

Where Perception Meets Reality with Long Term Care Insurance

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 life-

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.

"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.

time 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

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