

The Value Proposition of Long-Term Care Insurance

Soaring Above The Low-Hanging Fruit

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Can you explain to me why?

- Long-term care insurance sales have stalled in the past two years?
- After over 30 years of product availability, only 10% of those over age 65 own the product (*New York Times* – July 24, 2005)?
- Despite the legal liability issues, many insurance and financial advisors ignore or sell away from the long-term care insurance need (Harley Gordon, J.D., *FPA Journal* – August 2005).
- Despite the fact that numerous financial commentators recommend long-term care insurance (Terry Savage [*Chicago Sun-Times*] and Suze Ormond, just to name two), consumers continue to struggle with the value of the product?

In this article, I will focus on three answers to these vexing questions, which are closely related.

Most insurance and financial advisors:

- Have “picked” the low-hanging fruit within their client bases and now must learn how to approach those who are not “self-convinced” that long-term care insurance is a good deal.
- Struggle with the perception that long-term care insurance is too expensive and not worth the cost.
- Need to acquire new skills that empower them to successfully approach the next wave of long-term care insurance purchasers; those who want clear and convincing evidence of the value proposition of long-term care insurance.

The Low-Hanging Fruit

It is only natural that insurance and financial advisors make the “easy” sales first. Consumers who understand that insurance is a rational way to transfer the exposure of various risks, purchase insurance early in the product cycle. Surveys performed by various long-term care insurance industry “think-tanks” point to the fact that purchasers of LTCi are *planners*. This is consistent with purchasers of any type insurance. They are true believers; those who want the peace of mind that insurance provides.

The fact that only 10% of those over age 65 have purchased long-term care insurance is not heartening:

- After 30+ years of product availability, the vast majority of seniors have not embraced LTCi as an important tool to protect retirement income and assets. Denial plays a part in this, as does the false hope that the government will step in and take care of long-term care expenses, or that they can invest their way out of the need.
- Rising premiums on current products makes it less affordable to purchase lifetime benefits which provide total peace of mind.
- The product features and messages developed over the past 25 years do not resonate with the new Baby-Boomer Consumers of long-term care insurance. LTCi companies and agents must re-tool their

approach and appeal to the vast market now considering the value proposition of various long-term care solutions.

It's time to leave much of the old dogma of long-term care insurance sales behind us. Spending hours hammering consumers with impersonal statistics and policy benefits is passé. Boomer Consumers want to cut to the chase. They understand the need for retirement income protection; therefore they want to see how long-term care insurance will create the solution they are looking for. Lifetime benefits, which provide the luxury of offering an unlimited benefit in relationship to the premium are becoming less affordable and maybe unnecessary for most Americans. Agents need to embrace a new model that will help them show Boomers that some level of long-term care insurance protection is better than none. They also have to cut through the clutter of LTCi products and help consumers understand the value proposition of the product.

Presenting Solutions That Make Sense To Consumers

If I were to ask you to describe, in less than 20 words, the primary value proposition of every long-term care insurance policy we sell today, could you do it? Simply stated, it is *the dollar value of the pool of money when the insured is likely to need care*. All other policy benefits pale into insignificance, when the client goes on claim. Elimination period (deductible), method of payment (reimbursement, per diem, and cash), bed reservation, survivorship, return of premium, waiver of premium, etc. etc. are all side shows to the main event. *The focus of your long-term care insurance presentation should be the amount of money the insurance company will deliver at time of claim, and what the client needs to pay for that indemnification*. If you cannot communicate this core value proposition in a concise manner, you may miss the mark and lose the sale.

With this in mind, my agency has distilled the essence of long-term care insurance down to a few essential talking points:

- The policy value (pool of money) at initial time of purchase.
- The policy value, in the future, based on the inflation option chosen.
- The policy premium in relationship to the benefit at the likely time of claim.
- What it would cost to "do it yourself" or self-fund the future benefit based on an after-tax rate of return on investment.
- How much money you would have if, instead of purchasing insurance, you invested the premium at a reasonable after-tax rate of return.
- A comparison of the minimum number of days of care "covered" by doing it yourself or purchasing long-term care insurance.

Whether you are selling automobiles, pencils, widgets or long-term care insurance, consumers want to know the value they are receiving for their dollar. While a good case can be made for the intrinsic values of long-term care insurance (choice, quality of care, caregiver benefits, etc.), consumers want to understand the monetary worth of what you're proposing. How does paying "X" dollars per year translate into retirement income security when the prospect is likely to need care? This can be achieved by clearly describing the intrinsic pool of money that is inherent in every long-term care insurance policy sold today. However, if you focus on the current value, you and your client will miss the crucial point. *The real value of the policy*

resides in what the pool of money will be worth at the probable time of claim; then, and only then, will the prospect understand the actual value proposition of long-term care insurance you are presenting to them.

After this straight forward conversation, a simple review of the client's other rational options may be in order. The discussion should boil down to two points:

- Transfer the risk (insurance).
- Do it yourself.

We have developed the following format to make it easy to understand these various relationships:

The Less Than Lifetime Solution™			
Transfer the risk or do it yourself?			
Pool of Money Scenarios	A	B	C
Confidential Client			
Current Age	58	58	58
Anticipated Age Care Begins	82	82	82
Transfer the Risk (If I buy insurance)			
If benefits begin this year (Beginning Pool of Money)*	\$219,000	\$292,000	\$438,000
Daily Benefit	\$200	\$200	\$200
Benefit Days	1095 Days	1460 Days	2190 Days
Benefit Years	3 Years	4 Years	6 Years
Inflation Benefit Annual Increase	5% Compound	5% Compound	5% Compound
If benefits begin at anticipated age (Future Pool of Money)**	\$706,857	\$966,421	\$1,525,132
Cost (Annual Premium)	\$2,720	\$3,120	\$3,900
Do It Yourself (If I self-fund and want the same future pool)			
Investment After-Tax Rate of Return (Assumed)	4%	4.5%	5.5%
The Lump Sum Needed Today	\$267,499	\$315,598	\$366,068
Annual investment needed until care begins	\$16,870	\$20,835	\$26,383
Do It Yourself (If I invest the premium amount)			
Total funds available at anticipated age	\$106,305	\$130,070	\$185,398
Care Days Paid by Investment Fund	180	221	318
Compared With Care Days Paid by Insurance	1,095	1,460	2,190
* Beginning Pool of Money Calculation		** Future Pool of Money Calculation	
Daily Benefit X Benefit Years Example: \$150 Daily Benefit X 3 Years 3 Years X 365 Days = 1095 Days X \$150 = \$164,250 Beginning Pool of Money calculation excludes any inflation benefits if available in years 2 and beyond. The Future Pool includes inflation if selected as a benefit option.		Initial Annual Benefit multiplied by Policy Inflation Factor every year up to and including the final year of the claim payments period. Daily claims less than maximum amount available extends benefit duration until total pool of money has been consumed.	
Note: Apples and Apples Comparison			
In order to accurately compare the insurance pool of money versus the investment fund, the calculations ignore all care expenses not covered by insurance. When making an insurance decision, careful analysis should be made to assure a clear understanding of the financial impact of deductible days and other forms of co-payments due to benefit selections made by the insured. For example, long elimination periods, minimal daily benefits, inadequate inflation coverage, and short benefit periods, while reducing premium, may add considerable cost when care is needed.			
None of the material in this presentation should be construed as investment advice or interpretation of legal or tax code. Please consult with those advisors to determine how these concepts may apply in your particular situation.			
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In the example above, we illustrate a client (age 58) who anticipates that he/she will need long-term care beginning at age 82 (date of first claim based on industry averages). The Less Than Lifetime Solution™ will provide the prospect with one to three scenarios. The first facts presented include:

- The dollar value of the pool of money at time of policy issue.
- The dollar value of the pool of money at the hypothetical time of claim factoring in the inflation protection choice proposed (in this case 5% compounded which we recommend at all ages).
- The policy premium.

At first glance, the client can see the relationship between the value of the policy when they are likely to need care and the premium. This puts the latter into proper perspective. Yes, all of the moving parts of the policy are still present, however, you have focused the consumer's attention on the most critical; the amount of retirement income and asset protection they will have when they need it most.

"Do-It-Yourselfers" will be silenced by the large sums of money necessary to self-fund the risk. By using their own after-tax rates of return on investment, you can compare the lump sum or annual amount of contribution necessary to provide the same pool of money at likely time of claim. Compare these amounts to the long-term care insurance premium and it should be apparent, to any investor that the policy is a good deal, providing outstanding leverage.

Those who object that they won't receive their premium back if they don't need care, will quickly see that they can have the best of all worlds. By purchasing long-term care insurance for a few thousand dollars per year, they free up most of the dollars necessary to self-fund the risk, to invest as they choose. Here is an annuity, mutual fund or other investment opportunity for them (and you) so they can build additional wealth while having the security and peace of mind that their long-term care insurance needs are satisfied.

Finally, for the client who wants to invest the premium, they will quickly see how little they will have in actual dollars and days of care covered as compared to the long-term care insurance policy that you are presenting. In short, when long-term care insurance is placed into the proper perspective, it looks like the deal of the century!

The Less Than Lifetime Solution™ allows you to present an affordable alternative to expensive lifetime benefits or no coverage at all. Your clients can have the advantage of tax-free cash flow to pay for their long-term care expenses when they need it most, or sooner, if their need for care arises before what is typically anticipated. By presenting long-term care insurance protection in a manner that makes financial sense, you cut to the chase and create clarity about the actual value proposition of long-term care insurance.

After the prospect sees these financial relationships and agrees that the retirement income and asset protection provided by long-term care insurance makes good sense, you can discuss the details of the policy

you are proposing. As with any financial instrument, disclosure is necessary, but, once the client understands the relationship between benefit and cost, the rest of the decisions are easy.

Is it time for you to move to the next level of long-term care insurance sales success? Soar to new heights by approaching prospects who want you to spell out the value proposition of long-term care insurance. For more information about The Less Than Lifetime Solution™ and our complete package of Less Than Lifetime Solution™ sales tools, e-mail me today, barry@paradigmins.com, or call me at (888) 279-3591 x201.

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