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Marketing and Product Development for the Senior Market

Track: Health

Moderator: JAMES T. O'CONNOR
Panelists: JAY M. JAFFE
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Summary: As the U.S. population ages, insurance companies are paying greater attention to the senior market. Panelists discuss how product design, premium rate development and marketing methods are being used to win allegiance to a carrier's brand.

MR. JAMES T. O'CONNOR: We're going to cover three topics today: a Medicare Supplement update, the LTCI market outlook and a niche market look at a special type of insurance called trip cancellation and travel insurance, which should be a little bit different for you.

Our panel is made up of three distinguished gentlemen. Jay Jaffe is president of his own firm, Actuarial Enterprises Ltd., and has been in the consulting business for more than 30 years. His expertise is in the niche markets, and he will be talking to us about travel cancellation insurance.

Our second speaker is Chris Rogers. Chris has 23 years of insurance experience, the last 10 of which have been in the individual LTC market. Chris is a director of marketing development with John Hancock Life Insurance Co. He will be talking to us about the developments in that market.

Our third speaker is Neil Lund, who is senior vice president and chief actuary with Universal American Financial Corp., which is the parent of American Pioneer, a leading Medicare Supplement insurer. One of the things about Neil that some may know and others not is Neil is into race car driving, and so there is some question

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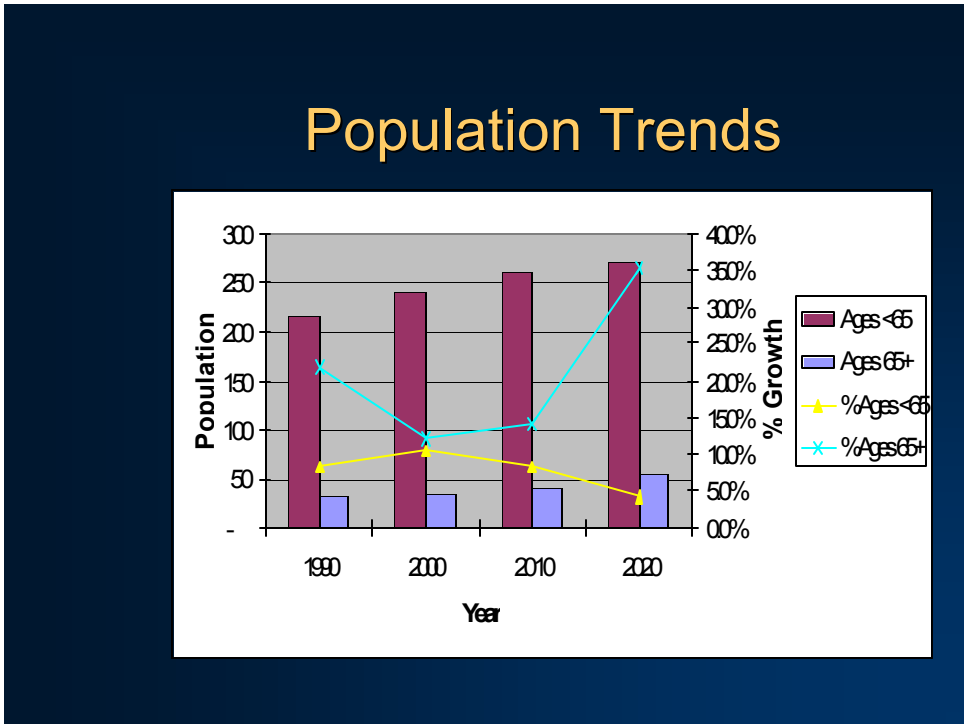
as to whether he'll really ever be part of the senior market. At this point, he does have a lot of experience with the senior market products. Neil will be our first speaker, and we'll lead off with the Medicare Supplement market.

Part of the senior market is definitional. Medicare is for Americans 65 and older, and as the years go by, the definition as to who qualifies for Medicare will inch up a little more. LTC has a broader definition of the senior market. Chris can get into that in his talk. Some of the supplemental plans, while they are geared to the whole adult market, focus on and are probably more popular with the senior market, people approaching or already having reached retirement.

In terms of the population trends, one of the keys about the senior market is that it is growing and is expected to grow quickly once we baby boomers begin reaching that mark of age 65. In Figure 1 the blue line is the percentage change projected for the 65 and older market. The yellow line is the projected change for under age 65. You can see the downward trend in the growth for the under 65 market versus the sharp increase after 2010 for the 65 and older market. Down the road, these senior products are probably going to be in demand as more of us move into the senior market.

Figure 1



There are other senior supplemental products that we're not going to cover here, such as critical illness, both the expense variety and first diagnosis benefits, which

have become popular in today's markets. Hospital confinement coverage continues to be offered to some of this market. Increasingly, we're seeing life insurance products offered with rider options offering disability income, critical illness and other types of health insurance coverage. Long-term-care benefit options are also being added to life insurance products. Chris will get into some of that.

MR. H. NEIL LUND: Thank you, Jim. I do expect to be a senior, and it is coming up soon with kids in college and one kid about ready to graduate from college. I don't know where the time has gone or how I've gotten to this point.

I do want to note that in looking over the program, I saw seven sessions devoted to LTC. This session has a portion on LTC, so there are eight sessions on LTC. A portion of one session is on the quintessential senior product, the Medicare Supplement. This may say something to us. It may say that this is a pretty boring time for the Medicare Supplement. In fact, it is. The short version of my speech is that things are pretty calm out there. But Jim wouldn't let me get away with that, so I have to go on with a few other things.

The first thing that we observe is that we're in a period of relatively slow growth. Figure 2 is from the NAIC database for the most recent year, 2000.

Figure 2

MEDICARE SUPPLEMENT PREMIUM GROWTH

Year	Direct Written Premium	Growth Rate
1996	$13.3 Billion	6.5%
1997	13.6	1.9
1998	13.7	1.4
1999	14.0	2.1
2000	14.5	3.4

Source: NAIC

There is relatively slow growth in Medicare Supplement and Medicare Select premiums. Approximately half of the senior market has coverage that's an extension of their employers, and another 12 percent or so of the market is covered by Medicare + Choice HMO products. This is just looking at Medicare Supplement and Medicare Select. There is a little up-tick in 2000 in the premiums enforced, but again, a thing to remember is that as people like me reach age 65, this will explode. In the next 10 years, we should see steady growth. There are currently about 35 million Medicare-eligibles by reason of age and another five million by disability, so it's not a small market and will only grow.

The other thing we can glean from the NAIC database is that loss ratios by and large have been coming down. Figure 3 is taken from the total NAIC database and reflects both group and individual products combined. Interestingly, when you survey the database, it's sometimes hard to distinguish between group products and individual products because the total loss ratios are similar. There is a slight up-tick in 2000, but again, just a general trend of downward loss ratios, which is good. I'll touch briefly on a couple of pieces of that a little later.

Figure 3

MEDICARE SUPPLEMENT LOSS RATIO

Year	Loss Ratio
1996	82.5%
1997	82.7
1998	79.8
1999	79.3
2000	80.4

Source: NAIC

What we see here is relative stability, relative improvement in things. Let's see what the Centers for Medicare & Medicaid Services (CMS) are up to and what they're observing. The first thing that CMS has noted is that the medical cost trend is lessening. I struggle as to how to state this. It doesn't mean that we're into a negative trend at all, but the trend is lowering itself. I could say that the first derivative of trend is negative, but the trend itself is still positive.

The primary driver behind this is outpatient hospital costs. That's because of significant reimbursement changes around what CMS did for 2001 continuing into 2002. It should also be noted that there was a negative physician trend update—truly negative for 2002 from CMS. CMS is observing relatively moderating medical trends, which is hopefully a good sign. But again, this is relative normality that is relatively stable.

For 2003 CMS is introducing a PPO demonstration project. It expects this to cover about 35 plans in 20 markets. It's expecting 150,000 enrollees out of this. This is not a big project and certainly nothing to rival Medicare + Choice at this point, but it's another experiment and another way of CMS trying to control overall medical costs.

The incentives for these plans are that the payment to CMS will be the greater of 99 percent of the fee-for-service rates for the area or the Medicare + Choice rates. CMS is also willing to enter into a risk-sharing arrangement. There's a corridor under which the plan has 100 percent of the risk, probably about a 2 or 3 percent corridor, and beyond that it's a 50/50 share with CMS. If experience is worse, CMS

will kick in some additional funds. If experience is significantly better than expected, CMS expects a rebate. Finally, a further incentive for this is that CMS has tried to streamline a process for applying and has a series of administrative waivers. But again, there are no big experiments, and nothing earth-shattering is going on.

On the HMO disenrollment front, we've seen moderation of disenrollments down to under half expected for 2003 of what we saw in 2002. This, however, may be a bit misleading. The feeling is that there are a number of HMOs that are just hanging on hoping that the federal government will do something to revise the cost structure and help them out. Depending on your point of view, that may or may not happen. I don't hold out any hope for anything like that over the short term.

With HMOs just hanging on, at any point, we could see a massive increase in disenrollments coming up. It's a regional phenomenon. Currently about 30 percent of the Medicare market in California is covered by HMOs, and if there were plan changes or massive disenrollments there, that could certainly be something that would affect us greatly. But for next year, for the short-term future, there is relative stability.

Finally, on the CMS front, CMS is supporting a study of the NAIC refund formulas for Medicare Supplement. It will be looking at a variety of things, but the primary focus is attained age versus issue age. The current refund calculations use one scale. There's a question as to whether it's appropriate. Should we have one scale or two scales? What's going on?

The CMS actuaries were quick to point out that they're using a theoretical approach in their study. They've not surveyed data; they are not doing extensive data mining or anything like that. It's done purely from a theoretical standpoint, and it is expected that the study will be shared with the NAIC at the December meeting. They're expecting approximately a mid-November release of the study. Beyond that, the actuaries didn't know what was going to be in there, so they haven't seen it yet, either.

Staying close to where CMS is, what we see coming out of Washington is a generic prescription drug card. Most seniors are probably already using a prescription drug card for discounts. There probably is not much change or much savings for individual seniors coming out of there, and there is slow-to-no movement on expanded drug benefits.

It's an election year. We don't hear much of anything about Medicare drug programs from the politicians. There's no money in the budget to fund anything. Again, everything is normal as we see it today. Without politicians speaking about this, nothing is going to happen over the short term. We could see some agitation after the election, but it will take a long time before anything emerges.

The American Academy is updating its 1996–98 study of Medicare Supplement plans and experience. The new study covers 1996–2000, but once again, as you mine the data and look through them, there are significant areas where the data are not credible. We have plans, ages and various cells where there is not enough coverage to have credible results. But it is encouraging to see the update of experience in what has been added.

The observations are that, again, the medical trend is lessening. It ties into what CMS is seeing and into what we're seeing in our company. Lapse rates have moderated; there are lower lapses on this product and less churning. The new study also looks at HMO disenrollment and guaranteed issue experience for four companies, although the committee is quick to point out that it has a lot of caveats around this piece. It is a small study of individual companies using a lot of practices. Read it and interpret it yourselves, but view the data with a dose of skepticism.

Again, this study is expected to be released in time for the December NAIC meeting and will hopefully be available to us around December 1. Mike Abroe, who is the chair, said he expects that at the December meeting all the NAIC will do is acknowledge that it has received the study. It will not have had any chance to review it at that time.

On the product front, what we see as we observe our competitors is a movement toward lower commission rates. This isn't dramatic. It's a slight lowering of commission rates. Regarding the continued emergence of select products offered by companies in the same market as regular Medicare products, the select products clobber the regular products saleswise. Generally the persistency on these is as high as on the regular Medicare products.

There is some introduction of high-deductible F plans, potentially the eleventh plan. This is an attempt to lower cost and deal with a more catastrophic approach. It's approvable in some states, but other states struggle with it. It's a product that we and a number of our competitors are rolling out.

The other interesting phenomenon is that Medicare is still regional. Even though we are a national player, there are states in which we're just nowhere. There are other states where we are a strong competitor. With the exception of AARP United Health Care, competition is regional. If you're looking at your competitors, you have to go state by state.

On the regulatory front, we find increasing scrutiny of rate filings. A number of states are asking for your claim reserve levels and the patterns that have been happening there. The departments have stepped up their monitoring activity, and that is good. You need to be tighter in your rate filing increases and expect to be challenged if your data do not hang together. If your data hang together, our experience is that, even in Florida, someone will question you, but your filings will

get approved. Several of our companies are Florida-domiciled, so I do get to work with the Florida department quite a bit.

More states are requiring that the disabled under age 65 be covered. In a number of states, this means multiple plans; in a few states, it means all plans have to be offered to the disabled. We're seeing an expansion of the under age 65 coverage. Important for Medicare carriers is more states are enforcing the annual filing requirements. The regulations require that we file rates annually whether it's a small block or large block, no matter what, whether there's a rate increase or not.

Periodically, with small blocks of business in states that they're not interested in, people have skipped the filing. Don't skip the filing. Even if you're not taking the time to go for a rate increase, you are required to file. More states are looking critically at that, and the next time you walk in with a rate increase, you will have some problems with the state.

In conclusion, we're seeing moderate growth. We're seeing the moderation of medical cost trends. We're seeing fewer disenrollees. We're seeing reasonable stability, and things look good. But I caution everyone: With 35 million seniors in this marketplace, with a highly political product, you can never take your eye off the ball. You can never relax because, with the political scrutiny that Medicare Supplement products get, this could change instantly. While things look nice now, we'll be back next year, and the story may be different.

MR. O'CONNOR: We'll take any questions on this topic at this point, or you can wait until after all the presentations.

FROM THE FLOOR: I'm just wondering what the effect of FAS 106 was on the Supplement market and whether you expect the imminent Governmental Accounting Standards Board (GASB) standard to have a similar effect.

MR. LUND: I have not looked at GASB. I don't think FAS 106 has had any significant effect on this market from either side of the fence. You didn't see much growth, and we haven't seen much change. It's been business as usual on the employer, individual and group sides. There hasn't been much effect.

MR. JOHN CATHCART: I have a question about the loss ratios that you were showing. While they are showing a slight downward trend, they still strike me as pretty high, hovering around 80 percent for a product that is typically priced at 65 percent. It looks stable, but are the companies making money?

MR. LUND: There are a couple of things. One, it's combined group and individual experience. Two, United AARP is roughly 30 percent of this market and runs high loss ratios. Three, when you look at the database and start looking at individual companies, it's clear that some companies are not paying attention to this business. When you see loss ratios over 100 percent, you figure they are not making money.

I think the serious players are making money. In fact, this morning, Jay asked, "Are you making money, and how do you make money?" I think there are three key elements for the companies that do make money. The first is scale. You have to be large enough in this business to make money. I wouldn't hazard a guess as to what the size scale is. Two, you have to be extraordinarily efficient operationally. More than 80 percent of our claims are fully electronic and are never touched by human hands. A lot of electronic payments are going out of our shop. Three, you have to manage the heck out of your rates. You have to stay on top of everything. The companies that are doing that are making money. The companies that aren't probably aren't.

FROM THE FLOOR: One of the issues that CMS wrestled with for a lot of years and that held it up from going to prospective payment on hospital outpatient was that seniors and implicitly the Medicare Supplement insurers were paying a copay on hospital outpatient that was 20 percent of charges, not 20 percent of cost. Since the national average cost-of-charge ratio is probably under 40 percent, it was going to cost hospitals or CMS a lot of money if it ever allowed people to pay copays based on cost.

The CMS solution to that as I understood it when the prospective payment system was introduced was to allow and even give incentives to the hospitals to continue to charge their preprospective payment system copays until such time as the HCFA fee got as high as the old charges, in which case they could increase it. I worked through my own extrapolation as to when that was going to happen, and it looked like it would be three to four years after hell froze over. What I wanted to see is if that was consistent with your expectations, which would mean low trends on the amount of your hospital outpatient copays for a lot of years.

MR. LUND: Yes, in brief, and in fact, we're seeing that in the copays and deductible changes. The hospital trend is not the driver here. We usually find Part B and principally utilization drivers around what we're seeing.

MR. O'CONNOR: Before Chris begins his presentation, you may not be aware that the Health Section and the Society are sponsoring a new research project on prescription drug coverage for seniors. The intent of this is varied, and I think it will be a useful study once it's completed for probably everybody in this room as well as for helping out with any of the political policy issues that are coming onboard.

The study will include a look at various projected prescription drug claim costs under a series of different benefit configurations. At this point we expect about 25 benefit configurations ranging from low-deductible, high-benefit plans, where lots of people might participate, to high catastrophic plans, where it will be less costly to the Medicare program and more costly for each senior but should hold down some utilization.

That study is just getting underway, and I think once completed will be useful not only for policy issues, but also for any of you who have a risk plan and are looking at how you've priced for your prescription drug coverage versus what the study might show and for Medicare Supplement carriers that are offering prescription drug coverage. It would give you assistance in pricing those products or at least will give you some norm with which to compare your experience. I just wanted to make you aware of that if you were not already.

MR. CHRISTOPHER J. ROGERS: I've spent a great 23 years with John Hancock, and I'm looking forward to many more. I've been in long-term care (LTC) for almost 10 years. Prior to that I was in the sales department. In 1997 LTC folks came to me and asked me if I wanted to go over and work in the marketing area for LTC. The first thing you do in this type of situation is ask those associates you respect most what they think: Is this a good idea?

They said, "Chris, this is virtually an untapped market. It is the product of the future. The population is aging, awareness is growing and the need is real. This product is just going to fly off the shelf. Go over there, get in the big chair, sit back, hold on, enjoy the ride and become rich and famous." So I took the job.

The ride has been pretty good, but it was not quite as easy as all the predictions. If we look at industry growth trends over the years, we see that starting in 1992 and for the next five years the industry experienced about a 17 percent increase in growth. Pretty impressive. Since then the industry growth rate has been about 6 percent. Not quite as euphoric. However, this year it looks like the industry has bounced back a bit, and we expect things are going to shape up to be a pretty good year.

With the strong demographics and growth in public awareness, we have to keep asking ourselves why the growth rate is not even stronger. What's happening, and how do we as long-term-care insurance (LTCI) marketers make it work?

The fact is, the population is aging. More of us have experienced the painful issues associated with those in need of LTC. Publicity surrounding the need for LTC protection is increasing every week. Financial publications are telling the public to consider LTCI as important protection for themselves and their loved ones. Yet the market "explosion" has not materialized as some may have suggested back in 1997. Logic would tell us that this product should almost sell itself.

So for us to successfully play in this market, we need to understand what makes it go and what restricts its growth.

Companies with financial problems and a weak economy have created some turmoil in our industry and maybe slowed things down a little bit. Frankly, I don't think that has had as much of a dampening effect on the consumer demand for LTCI as it has had on the comfort level with marketing LTCI among various producer groups.

For me the reality is that LTCI is a nondemand product. To drive sales to the lofty heights we all strive for requires more than a growth in consumer awareness among an aging population. To a certain extent today's demand is driven by distribution and face-to-face sales meetings. This is not to say alternative methods will not experience a degree of success. However, as marketing people, we see that significant growth in sales "today" requires an appreciation for where the high potential opportunities reside. And for LTCI it resides in face-to-face distribution

Consequently, to expand sales significantly, carriers must appreciably expand the number of professionals distributing our product. LTCI is a relatively predictable premium. To grow, you have to increase the frequency of sales. To increase the frequency of sales, you have to increase the number of people selling it. Unlike life insurance we cannot rely on jumbo LTCI sales.

To grow sales, one key hurdle we need to overcome is distribution saturation. What I mean by "distribution saturation" is that, for the most part, most of the producers with the skills to sell LTCI probably are already actively selling. So the secret to expanding the sales of LTCI to the point where companies like John Hancock continue to thrive in this industry is by expanding the number of sales people with the knowledge and confidence to market the product. In effect a marketing strategy must take into equal consideration the needs of the consumer and the needs of the distributor.

Among the consuming public we need to determine what does and does not motivate them about LTCI. One impotent demotivator is denial. Everyone thinks it is probably going to happen to someone else. Consequently our marketing programs need to focus on methods for walking consumers through the learning process that brings them to the appropriate reality.

And what about asset protection? Recent studies indicate that leaving assets for children is *not* a primary motivator in this market. As the LTCI market is predominantly a Middle America market, most of us do not have a lot of assets to leave to our children. We are focused on accumulating assets for a comfortable future.

Many individuals perceive LTCI as being included in their medical insurance. Others consider it coverage you need only when you are older. This is another reflection on consumers' lack of understanding on the issue of the type of care needed, how it is ultimately paid for and the type of products that will and will not offer protection.

However, consumers do appear concerned over the poor quality of care in nursing homes. This is somewhat consistent with their priority of saving for retirement. Both relate to "quality of life" issues, an important point to keep in mind.

Some studies indicate that the reason consumers do not purchase LTCI more frequently is the continued perception that it costs too much. I do not consider this that big of an obstacle. Consumers who understand what LTCI can do for them and their families, when these reasons resonate with their priorities, buy the product. Take a look at the lapse rates in our industry. People buy the coverage and keep it because it is affordable, they need it and they know it.

Will government incentives make a difference among consumers? Absolutely. The government and the consumer would be well served with additional financial incentives to purchase tax-qualified LTCI. I am not certain it is not the publicity surrounding such a legislative act that is the greater motivator than the actual premium dollar savings. LTCI is already pretty affordable. It is the message such legislation sends that will motivate more consumers and, for that matter, producers to listen.

Consumers will see these incentives as an endorsement of the importance of LTCI as a core financial protection tool. Distribution would take the new incentives and run hard with the opportunity to increase their access to new markets. So from a marketing perspective a lot of attention would be focused on tools that help sales people approach and promote LTCI in new markets.

Frankly the current incentives for both the individual and business markets already provide a significant opportunity to increase consumer and producer motivation. New incentives would only increase this level of enthusiasm.

The question of combination products and their potential in this market is often raised. Many people feel they are too complex and, as such, have little potential. This does not surprise or discourage me. Of course, when you ask people whether a combination product is too complex, they're going to say "Yes" because no one has ever sat down and explained to them what the combination product is and how it works.

As a marketing organization and as people who have to deal with both consumers and distributors, our job is to simplify any and all product offerings and position them in a manner in which the key messages are evident and easy to understand. Consequently I believe that there is definitely a place for considerable growth in our industry with combination products, such as life LTCI or annuity LTCI. They are not particularly complicated or hard to comprehend. If the message is clear, and distribution is prepared, consumers will see the value.

What a lot of this means is that when deciding on the "marketing strategy" the chosen method of distribution is key. It is not all about technology and fancy brochures. It is much more than that. It is important for us to understand where the sales are coming from and why. Armed with that knowledge we can create a plan of action that combines consumer needs and distribution preferences.

I have talked a lot about distribution and the importance of distribution in the development of a marketing plan. However, studies continually indicate that consumers would prefer to purchase without a broker involved. "We don't like high-pressure sales." Does this mean we should abandon broker distribution and sell only through the mail or over the Internet?

Typically people have an initial negative opinion of insurance agents or attorneys. However, when we need one or the other and they do a good job for us, they typically become some of our most trusted advisors. They take some of the mystery and the sense of uncertainty out of life.

The challenge is to help the planner understand—not only understanding your product but how his or her client is likely to feel about the product and the need we are trying to address. Our job is to package and deliver LTCI to distributors in a manner that includes market positioning, packaging and training. Help the broker become more comfortable with the conversation he or she is going to have with their clients and prospects.

In a recent Life Insurance Marketing and Research Association study, producers described buyers as recent retirees who are better educated, wealthier and prone to planning. Therein lays the challenge. The buyers are often better educated about LTCI than many planners. When a producer isn't comfortable with the subject, they will avoid the conversation. It is those planners uncomfortable with their knowledge who have the greatest opportunity.

Our challenge, our responsibility is to help them adjust their pattern of behavior to do something they have not done before: market LTCI. This is not an easy thing to do. Sales people, financial planners, insurance agents and other successful people are creatures of habit. It is that daily routine that makes their business work.

The more successful a producer, typically the more ingrained is their business pattern of behavior, their formula for success. Any time you try to inject something new and different into that formula, it will initially be perceived as a potential threat to their business. And if our goal as marketers is to change patterns of behavior, it is important to understand how to fit a new marketing program into an established and successful routine.

As an industry we must understand, appreciate and overcome that reality. Producers will not have an LTCI conversation with the consumer, no matter how logical it is, if the consumer is better educated than the producer. We have got to educate producers.

Who educates the clients? Producers educate clients. Who educates the brokers? Product providers educate the brokers.

There is a lot of good quality consumer information out there for companies to reference as they build their marketing strategy. However, I advocate taking it a bit further through a process of market immersion. This means getting a group together and spending time talking with and listening to a wide range of people inside and outside the industry.

We try to take a look at and ask questions of people from a variety of disciplines to find out firsthand who the consumer is and who the producer is. Talk to care providers, visit assisted-living facilities, nursing homes and homecare agencies. Spend time in expensive facilities and not-so-expensive facilities, the very nice and not-so-very nice facilities

Talk to family caregivers, care receivers, healthy retirees and preretirees. What is it they are thinking? What motivates them? What did they think was important before the event occurred? What do they think now that the event has occurred? What are their challenges? What are their wants? What are their needs? Those are very important things for us to know so we can do a better job designing product, educating consumers and training producers. Armed with this learning, define the value proposition and create an implementation plan.

Following our most recent market immersion research, I was reflecting on all the people and experiences I had been exposed to, One thing became clear to me from listening to all these people. The bottom line to them was all about the quality of life.

When people have gone through life, raised a family, taken care of their family and now are in the most vulnerable period of their lives, the last thing they want to do is to find out how little they can spend on LTC. Their concern is with the quality of the facility, their living conditions and their personal dignity.

No one in this room goes to work in the morning to try to buy the least expensive car they can. No one in this room goes to work in the morning to try to buy the least expensive house they can live in or take the least expensive vacation. That is not how you live your lives, and that is not how people in their more challenging and vulnerable condition want to live their lives.

Home care is key in the positioning of LTCI. There are some facilities out here that are very attractive. However, another key learning from the admissions directors of these establishments is that no one really even wants to go there. People prefer to stay at home.

We also know that LTC is a family issue. It doesn't just impact the person who is sick. It impacts friends, siblings and other relatives. And it impacts mostly women, the first home-care provider. What motivates consumers is to promote how LTCI provides them with the financial resources to stay at home.

Another key positioning message is asset protection. However, it is not necessarily the asset protection of the individual who is receiving the care. I think more often than not, it is the asset protection of the spouse and children. Often overlooked is the decline in the healthy spouse's standard of living when retirement income is needed to pay for care. And often the children are concerned about sharing in the cost of care of their parents. Consequently marketing programs targeting family issues will resonate with consumers.

Once we have established our marketing position, it is imperative to define a strategy for bringing it to market through the chosen distribution channels. Again, it is important to take into account the specific patterns of behavior among varied distribution channels and determine how to work within these systems to bring more LTCI to market.

"Insurance marketers" of non-LTCI products look for help in the "How to" of selling LTCI in various markets. Once they are comfortable with the LTCI sales conversation, they will have more of those conversations. The goal is to make them comfortable.

"Financial planners," on the other hand, are most comfortable talking about asset protection and tax advantages. Along with this group, help them with the employer market as that fits into their business plan, but do not neglect the discussion of consumer needs for "quality of life."

For the "LTC sales specialists," it's all about shelf space. There is less emphasis on training this group on how to sell LTCI. The key is convincing them your company will serve them and their clients better.

The market outlook for this great product is great. What they told me in 1997 is still true today. Consumer awareness is growing and will continue to grow. The federal program has gone a long way to help educate people on the need. It is helping to educate estate planners and financial planners that this is a product they should be looking to include in their business plan. Consumers' personal experiences with the perils of LTCI will increase over time. And the media attention continues to rise.

We are already feeling the effects of increased appreciation of this product. Top life insurance sales people and estate planners who wanted nothing to do with LTCI 18 months ago are calling more frequently to seek advice on addressing the subject of LTCI with their clients.

There has been some turmoil in the industry, and this helps the strong brand name companies. There has been somewhat of a flight to quality, which I think has helped our company in particular.

The key to gaining shelf space is differentiation. Stay focused, be persistent and have patience, and the sales will come.

MR. O'CONNOR: We'll take any questions for Chris. I have a couple of questions for the audience. How many of you are involved in some aspect of LTC? Maybe about a quarter of you. My second question is, this is a mixed group in terms of age, so how many of you have purchased some LTC coverage? About a quarter of you or so. That's a little more than I would have guessed.

MR. ROGERS: Yes, a little more than I would have guessed too.

MR. O'CONNOR: But we are an educated group, so I guess that's reflective of that.

MR. GLENN TOBLEMAN: Chris, you mentioned the flight to quality, but one other aspect that I think is slowing down sales is that a lot of the consumers are scared by trying to determine quality. There are some fairly major companies that at one time had strong S&P ratings and strong ratings with A.M. Best that are no longer quite so strong. I think that there is a little bit of consumer angst out there, and how do you fight that?

MR. ROGERS: I think one of the advantages we have is that our name John Hancock is a very strong brand, so it's not as big an issue for us as it is for some of the other carriers.

However, we have long recognized the value of brand strength. For many years we recognized the value of brand and have intentionally positioned the financial strength of the company as one of the key benefits of going with John Hancock LTCI. All of John Hancock's brochures have a section on financial quality.

You are correct. People are concerned. What companies can do is be factual in their brand positioning and try to put people's mind at ease.

MR. JAY M. JAFFE: To make sure everybody understands that when we talk about the senior market, it's really not one market. Many of the people are under 65. I've seen some seniors at 22. At least, they look like seniors. But I've seen some people at 100 who you would think were well under 65. This is not one marketplace.

I am going to talk about two programs: trip cancellation and travel insurance. Obviously, the first question is why are we talking about these programs when we're dealing with a product session on senior health products? The answer is that these products are sold disproportionately to people who are over age 50, and I think that qualifies as one definition of a senior. Keep in mind when we talk about trip cancellation coverage that we are almost talking about a disability product for seniors. Some of the people are pretty old when they buy trip cancellation coverage—even over 90.

What's the size of the market? One trip cancellation product is reported to insure six million travelers a year. I can tell you that there are hundreds of millions of pleasure trips taken each year, not to mention all of the business trips that are

taken. It is a substantial market. As people get older, they travel more, so we should see a continuing increase in the travel business.

What is the difference between travel accident and trip cancellation? In trip cancellation, the main benefit is trip cancellation. With travel accident, I think of this as accident-only death benefits or similar related benefits, such as dismemberment benefits. We're talking about trip cancellation for the remainder of this presentation, not travel accident.

Here are some examples of the benefits presented by trip cancellation: travel arrangement benefits, medical protection benefits and baggage protection. Parenthetically when this product came out years ago, I think the main benefit was in fact baggage protection.

Why was baggage protection so important? Airlines lost a lot more baggage then than they do today. They didn't have bar coding, they didn't have a concern about it, and people were traveling for a longer period of time on boats and airplanes. You did not hop over to London for the weekend. Baggage insurance was, I think, the original motivation for the program. There are also accidental death benefits and worldwide assistance benefits in these programs.

Travel arrangement benefits consist of several things:

1. Trip cancellation is if your trip is cancelled for one reason or another. This could be because of a health condition.
2. Trip interruption is in case your trip is interrupted for health or some other reason.
3. Trip delay is when you're caught some place and miss the connection.

The medical protection benefits include:

1. Emergency evacuation; for example, you have a heart attack and have to be evacuated.
2. Accident medical if you need medical attention as a result of an accident.
3. Sickness medical if you need medical attention as the result of an illness if you are on a trip.
4. Unfortunately, there is also something called repatriation of remains.

Baggage protection is the old standby. The protection is for lost baggage and delayed baggage. Now, I'm going to tell you a secret. There are two things in actuarial science that I've learned over the years. The first is the probability of death is equal to one, and the other is the probability of lost baggage is also equal to one if you travel frequently.

What happens in the event of lost baggage? You can argue with the airlines. Sometimes you are successful, and sometimes you are not. I have had that

experience; it's not a pleasant experience to say to them, "I need a toothbrush." The delayed baggage benefit will help you to buy clothes and personal supplies if the airline is not cooperative.

There are accidental death benefits, for both common carrier and noncommon carrier accidents. Worldwide emergency assistance consists of getting you cash if you need it while you are traveling. Medical consultation with your own doctor can be arranged. Legal assistance also can be arranged if you need it.

How is this product marketed? I came up with five ways. There are the travel agents, which I mentioned before. There are subways. If you ride the tube in London, for example, and, instead of looking at the people, just look up at the top of the car, you will see "Take One's." You pull one off, or there's a number to call for travel coverage. Associations market travel insurance. It's marketed on the Internet. Finally, the old standby is at airport counters.

Most of these marketing networks are specialized. You cannot just wake up in the morning and say, "Oh, I would like to sell a travel assistance program, and I'd like to sell it through travel agents." It's not that simple. You have to find the right way to get to the travel agents.

Two varieties of plans are offered. The single trip is the one that you typically see in the brochures distributed by travel agents. The rates tend to be per $100 of the benefit or the cost of the trip. A different way to approach is an annual plan. The tube in London, for example, markets annual plans. I think I've seen them for anywhere from £50 to £100 a year, and that will cover all of your specified types of trips for a year.

The trip cancellation business itself has a relatively small number of serious players. I guess there are probably a dozen or fewer companies in the business. The travel accident business, on the other hand, has more competition. There are many companies that are involved in the travel accident market.

I have not heard 9/11 talked about at the meeting here. It is important for this particular niche market. What happened on a temporary basis was there were fewer sales, and people have taken shorter trips rather than longer trips. There was an increase in claims, but I think it was on a temporary basis.

On the other hand, the permanent changes that I believe happened are that there is a difference in the claim risk perception. The next piece is that the public became more aware of the benefit because there were many people who cancelled trips and many people who were afraid to travel.

The good news in a way is that September 11 was not unique. The Gulf War in 1991 absolutely devastated the travel business. The point is that every so often these catastrophic events are going to occur.

Another thing that has happened more recently is the impact of operator bankruptcy. Cruise lines go bankrupt, airlines go bankrupt, and they can cause a trip cancellation. That's a little different than it was years ago.

If you are going to think about September 11 in terms of what it means for this business, my advice is to view the results over a long period of time. You cannot look at year-to-year results. One year at a time does not make this business good or bad. I can also guarantee that in some years you are going to have higher than acceptable loss ratios no matter how well you plan. September 11 had a considerable impact. It is not something that you can ignore. On the other hand, I don't think you should look at the 2001 experience as being indicative of past or future experience.

There are pricing issues to consider. The main benefit is trip cancellation. It is also known as "short-term disability for older people." Older people have disabilities that make it impossible for them to travel. Also, the likelihood of a claim increases steeply by age. Travel insurance is a program that attracts older insureds. The third issue is there are concentrations of loss because of events such as September 11 and the cruise line problems.

There is an inflation impact on some of the benefits, and on some there is not. There is an absence of data. Most of the data are proprietary, so don't think that you can look data up in a book, go on the Internet or do whatever you want and get data. There are special policy provisions or unique policy provisions that you, your underwriters or your marketing people may recommend, and again, we do not know a priori the protective value of these policy provisions.

You are going to have, especially among older people, preexisting conditions. How you handle those and how you manage the claim settlement process with respect to preexisting conditions is going to have a big impact on the results of your business. There is also a possibility of getting subrogation, which means some other person may pay for the claim first before you have to kick in, and you had better make sure that the claim division is making the recoveries.

Let's address the administrative considerations you use. Some claims are easy to adjudicate, but you are going to get many questionable claims. The clients may have a problem, they did not want to go on the trip, they couldn't go on the trip, or they didn't feel like going on the trip. Which is it? You are going to have to understand these issues and be able to deal with them.

You are going to need international connections in this marketplace because if you are located in Boston, you cannot run across the street and help somebody who is in Barcelona or Tokyo. You need an international emergency network, and like any other product such as A&H, you are going to need detailed data-gathering capability or else do not get into this business, because you're going to be unable to

analyze the information and react quickly. You have to do that as well.

The coverage can be filed as an A&H product line in a life company because we contend that most of the benefits are related to A&H. You may or may not get that through all states. It also can be filed with a P&C company where it has the authority to write A&H, again because you have the majority of the benefits being A&H. It can be done as a one-carrier or two-carrier filing. The latter requires a dual certificate.

Here are some interesting pricing and evaluation issues. First of all, claims can occur prior to a trip. In other words, prior to the time that the coverage theoretically was going to go into effect, you can have a claim. For example, somebody has a health condition in October that definitely precludes him or her from going on a trip in December.

The timing of claims creates an issue. When is the premium actually earned? In what manner is the premium earned? We also have the impact of what I call psychological claims, for example, someone who just doesn't want to go on the trip. September 11 scared a lot of people. They were not sick, but they did not want to travel. As mentioned before, we have events such as cruise line and airline bankruptcies and the spread of terrorism.

It is a fun business. It is a niche market. It may not be for every company. It requires specialized distribution and specialized backend services, but it can be a lot of fun. A large part of this coverage is sold to seniors, age 50 and over. It's a benefit that definitely is senior oriented.

MR. O'CONNOR: Any questions about Jay's topic or any of the other topics that have arisen?

MS. GAIL LAWRENCE: I am from the American Republic Insurance Co., and we market to seniors and have been approached by a number of vendors that offer these types of services, particularly emergency evacuation or assistance with medical. Generally these vendors are offering a service, but it is not an insured product. I've always felt this dilemma of being an insurance company that's selling these services, and it smells like insurance and looks like insurance, yet it's not insurance. Wouldn't a provision of these services, kind of like a car club service, become insurance?

MR. JAFFE: That's a great legal question. I think that most of the time these benefits are not presented as insurance. They are presented as service benefits, especially in your situation. I would encourage you for many reasons to offer noninsurance benefits because there is a lot less regulation, a lot more freedom, and it's a different way of doing business.

MR. LUND: I also want to point out that that is an excellent question. The answer

varies greatly by state. Minnesota was probably the worst state with which I've had to deal with in these types of situations. You have to use your judgment and work with your legal staff.