



SOCIETY OF ACTUARIES

Article from:

# Long Term Care Newsletter

April 2000 – Issue No. 2

# Suitability and Long-Term Care Insurance

by Dearborn Publishing

*Editor's Note: This article is taken from the first chapter of a course on LTCI Suitability, which will be published by Dearborn Financial Publishing this year.*

**W**hat makes a long-term care insurance (LTCI) policy suitable? Some people believe suitability is determined by assessing a prospect's financial status. For these people, a sale is suitable when a prospect has a certain amount of assets and income. For example, the prospect may have retirement funds and an estate to protect. At a minimum, the prospect must be able to afford the policy.

Other people equate suitability with education. A sale is suitable when a prospect understands how an LTCI policy works and why he or she is purchasing it. Market conduct investigations that resulted in multi-million dollar fines against insurance companies have focused attention on this aspect of the LTCI policy sales process.

To still others, the essential component of a suitable sale is the identification of a prospect's needs and the matching of appropriate policy features and benefit levels to those needs. To these people, the measure of a suitable sale is when a claim is filed and the insured receives the type and level of benefits needed.

An LTCI policy is a complex and evolving product that is difficult to understand, design and manage. Furthermore, it's a new product to consumers, agents, insurers and insurance regulators.

Here, we'll explore the meaning of suitability and the related concerns of each of these players. These concerns arise from the questions,

uncertainties and confusion surrounding a relatively new and rapidly evolving product. We'll start with consumers.

## Concerns of Consumers

A LTCI policy is so new to most consumers that they have no personal experience to guide them in investigating and purchasing the product. Their parents didn't own LTCI and few, if any, of their friends have a LTCI policy. Practically no one knows anyone who actually received benefits from a LTCI policy. On the other hand, many people know someone who needed LTC and had to pay for it out of their own pocket, with dire consequences.

The decision to buy LTCI is difficult to make because it is a new, evolving and complex product; yet prospects must understand it to make the many decisions involved in designing a policy that meets their needs. The process is made more difficult for prospects because they have no experience to guide them in choosing the right policy.

Articles in popular magazines are inconclusive about whether or not LTCI is a need as the insurance industry claims, or a waste of time and money. Too often, these articles give mixed messages that are confusing.

The National Association of Insurance Commissioners (NAIC) has published *A Shopper's Guide To Long-Term Care Insurance* that provides many helpful tips on LTCI. The guide must be given to consumers for disclosure purposes in many states. Remarkably, this guide is also unconvincing when it comes to deciding whether the purchase of LTCI is a wise decision or not.



Few companies provide education to consumers on why to consider purchasing LTCI, and fewer still guide them in choosing a suitable policy. Too often companies that do try to educate consumers mix their educational material with sales literature, a practice that causes confusion and is unappreciated by consumers.

Some of the best information about LTCI is on the Internet. However, this information presents all sorts of credibility issues to consumers, especially seniors who are leery of information in cyberspace. Is the information factual? Is it honest and objective? Also, while many prospects for LTCI are computer savvy and do access the Internet regularly, they are not ready to buy insurance on the web...yet.

Consumer advocates advise consumers to speak to many agents before deciding to buy a particular LTCI policy. Of course, this results in confusion and uncertainty about whether or not they will buy from the "right" agent and the "right" company. Other than using a financial rating, few LTCI prospects know how to evaluate an insurance company.

The purchase of a LTCI policy requires a prospect to search his or her innermost feelings about a subject that is difficult to consider in private, let alone in front of a stranger. Consumers don't want to go through that experience repeatedly with various agents they hardly know.

What should a consumer do? Go through the experience repeatedly with various agents or purchase the policy from the first agent the consumer trusts? Faced with this choice, many consumers simply procrastinate. They delay the purchase decision, and that indecision may be the worst decision for a consumer.

### **Concerns of Life Insurance Agents and Financial Planners**

Because LTCI is so new and evolving so rapidly, life insurance agents and financial planners face many of the same issues consumers face. They have concerns about whether or not their clients need LTCI policies, which company is the best to use, and how one identifies quality products. Their clients are asking them about the advisability of purchasing LTCI, and they don't know what advice to give them.

Agents read the same magazine articles consumers read. They also read *NAIC's Shopper's Guide to Long-Term Care Insurance*. Because the primary insurers with which many life insurance agents have done business for many years do not offer LTCI, agents are forced to conduct their own analysis to identify which company offers the best product for their clients.

Wholesalers are touting their wares to these agents, promoting different LTCI products. Some of these products only cover home care. Some are presented as riders to life insurance policies. Some cover only certain types of facilities, and others are comprehensive, covering everything.

It seems like everyone has advice to give, but there are no easy answers. Some say an insurer's financial strength and ratings are essential. Others recommend finding the policy with the best features. Some represent companies with cheap rates. All companies are trying to find their niche in this market, which has an untapped potential. Everyone seems to be jockeying for position. Many attorneys seem to favor the transfer of assets and reliance on

expensive? Is it worth the price? How does the elimination period work? Should an agent recommend a tax-qualified or non-tax-qualified policy? What distinguishes a reimbursement from an indemnity plan?

Because they don't know the answers to such questions, they don't talk about LTCI. They continue selling the products they've always sold. They've decided not to take the time to learn about a product surrounded with so much complexity and uncertainty. Meanwhile, a huge

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Medicaid. As a result, many agents are confused and fearful of not getting it "right."

Agents are seeking reliable and objective information that will give them a solid foundation for selling LTCI with comfort and confidence. They're not finding such information. Instead, they read trade journals that publish articles about companies that under-price their product to gain market share, with the intention of raising rates in the future. Such articles make agents believe all companies are engaged in similar practices, and they don't want their clients to be subjected to frequent or large premium increases. Other articles throw fuel on the fire of the debate that's raging over whether it's better to purchase a tax-qualified or a non-tax-qualified LTCI policy.

Agents are also unsure about how to design a LTCI plan. They have many questions about it. For example: Why is inflation protection so

and lucrative opportunity awaits agents with the know-how to take advantage of the challenge of LTCI.

Agents who are taking advantage of this opportunity are finding that the LTCI sales process can be used to acquire a prospect's trust. Once that trust is established, it is easy to take the next step and look at the client's overall financial situation and the opportunities available for additional products and services.

### **Concerns of Insurance Companies**

Several big issues face insurance companies. One is whether or not to offer an LTCI. Another involves defining the characteristics of an LTCI product to offer. Still another concerns the appropriate pricing of an LTCI product. All these issues must be resolved amidst considerable uncertainty.

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The decision-makers at these companies read the same articles that are read by consumers and agents. Everyone — consumers, agents, insurers — wants to know whether or not LTCI is a viable product. The evidence favoring such a product is building. A growing number of insurance companies realize that LTCI provides benefits that are definitely needed by their clients. With increasing longevity, more of these clients are cashing in their life insurance policies and their annuity to pay for LTC services, and that isn't good for the insured or the insurer. LTCI is a solution to that problem.

Everyone is aware of the demographic shift described as the graying of America. In 1997, there were approximately 34 million people in the United States age 65 or older, and this group is living longer than ever before. This older population will burgeon between the years 2010 and 2030 when the baby boomers (those born between 1946 and 1964) reach age 65. By 2030, there will be about 70 million older persons in the United States, more than twice their number in 1997. People over 65 will represent 13% of the population in 2000 and 20% of the population in 2030.

Add to this the fact that the group over age 85 is the fastest growing segment of the entire population.

The odds of entering a nursing home and staying for a longer period increase with age. An average nursing home stay today costs approximately \$48,000 a year, and the average length of stay is 2.5 years.

Given these numbers and trends, LTCI is a product that it will make increasing sense to purchase.

Everyone has an opinion about what aging people want and need, and quite often these opinions don't jibe with reality. For example, many insurers believe these people need less life insurance so they are searching for ways to diversify their product offerings. However, it's a known fact that the majority of people are grossly underinsured for life insurance.

Some companies think LTCI is an easy sale because so many people don't own it, but LTCI isn't suitable for all companies and all distribution systems.

Is it suitable to offer a product that has so many unknowns? Is LTC an insurable event?

Insurance is for a dreaded event — like a death, a robbery, or a car crash. Some people think the likelihood of a LTC claim is so high that it cannot be properly priced.

Should an insurance company offer a product with so many unknowns — so much uncertainty? Data used to price LTCI are based on the costs of using services, not on how insureds act when they need LTC services.

Few companies have enough experience to price their product based on their own data. There is so much that is not known in this area. Do people want strangers coming into their homes to help them when they are unable to care for themselves? Or would such people prefer to move to a facility where others perform household chores and health care or where other services are available?

Introducing a new product like LTCI is a complicated process for an insurance company. The company must carefully design and price the product to meet the needs of its distribution system and provide

financial returns commensurate with the risk undertaken. Then the insurance company must struggle to gain approval of the product in various states. State-specific modifications must be made, and multiple disclosure forms and booklets must be prepared. Advertising material must be submitted to state insurance departments, which invariably require modifications before they can be used. This isn't an easy process for companies. Considerable resources must be devoted to these processes to achieve success.

Then, companies must make sure their products are sold in a suitable manner. Some companies and regulators pursue suitability by making agents complete suitability worksheets; they are required in many states. However, many people question whether the worksheet is an accurate measure of a true suitability assessment. Other companies test their agents' product knowledge and ability to identify the need for LTCI.

Having gone through this process, insurers then find out that demographics don't buy policies, well-informed individuals do. Redesigning a distribution system and motivating the systems' agents to sell a much different product is difficult. One must provide extensive training using multiple media to help agents understand why and how to offer LTCI in a suitable way.

### Concerns of Regulators

Regulators try to balance the needs of insurance companies and the public when drafting regulations and legislation and approving an insurance company's policy forms, disclosure documents, and advertising materials. Insurance regulators have been the most vocal in expressing their concerns about



suitability. They have seen the product evolve from one that mirrored Medicare's requirements for benefits to today's policies that provide meaningful benefits.

In the middle 1980s, a company could offer a product that was conditionally renewable and required a three-day prior hospitalization in order to qualify for benefits. Just 15 years ago, some states had no LTCI regulations, and the regulations of those states that did have them were weak.

qualified plan. On the horizon are more stringent regulations regarding rate stability.

Regulators have seen a few companies enter the LTCI business and then leave it by selling their block of business. Eventually, the insureds in the sold blocks are subjected to the undesirable practice of having their rates raised. Regulators don't want to see this happen too frequently. State insurance departments exist to minimize this type of activity.

- When agents provide the factual information and disclosures consumers need to make an informed decision?
- When companies fulfill their promises to provide meaningful benefits and stable premiums while still able to stay in business?
- When regulators maintain a trustworthy marketplace and foster innovation?

A "yes" answer to each of these questions would seem to satisfy all the players and create a perfect market.

*(Part II to come in the next issue.)*

***"Regulators are striving to hold companies accountable for making suitable sales and fulfilling the promises made to insureds at the time of sales."***

Today every state reviews products and forms, and many states have rate approval authority and review advertising filings. Companies have to modify their contracts, disclosure documents, and advertising materials to comply with regulations. Thankfully, the days of offering illusionary benefits in a contract that was cancelable are long gone.

Today's LTCI policy typically covers skilled, intermediate, and custodial care in state-licensed nursing homes, as well as home health services provided by state-licensed or Medicare-certified home health-care agencies. Many policies also cover adult day services and other care in the community.

Companies today are also required to offer inflation protection and a nonforfeiture option and included a third-party notification of lapse, a guaranteed renewable contract, and other consumer friendly features. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) made consumer protection a large part of the requirements of a tax-

Regulators are striving to hold companies accountable for making suitable sales and fulfilling the promises made to insureds at the time of sale. Congress has conducted investigations of LTCI sales practices. State market conduct exams and rating agency investigations have begun to include LTCI. Suitability and agent conduct are frequently part of the writeup of these evaluations. It is essential agents remain aware of what they are saying and not fudge the truth to make a sale.

### **Suitability of Concern to All**

This brief overview of some of the major concerns of consumers, agents, insurance companies, and regulators gives you some sense of the many uncertainties surrounding LTCI. It's all very confusing. What is the right way to go with LTCI? What makes a LTCI sale suitable? Is it suitable:

- When consumers make an informed decision and the policy meets their needs and budget, now and in the future?