



SOCIETY OF ACTUARIES

Article from:

Long Term Care Newsletter

October 2000 – Issue No. 3

Suitability and Long-Term Care Insurance

by Dearborn Publishing

Editor's Note: This is part two of a two-part article. This article last appeared in the "Long-Term Care Suitability" training packet, which has published by Dearborn Publishing in Chicago this year.

"Suitability" is not a precise term in the insurance industry. Already in this text, suitability has been used to describe many different areas of the sales cycle. Suitability is not a "black or white" issue. There are many gray areas between suitable and unsuitable.

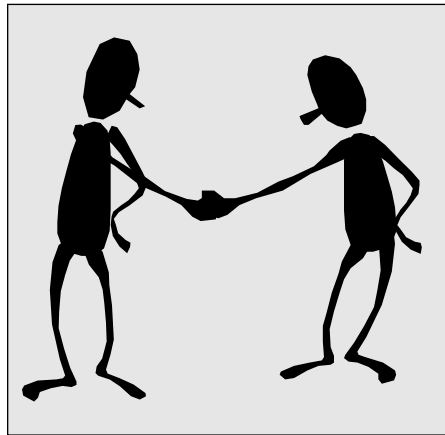
Most agents understand that any product they recommend should be affordable and meet their prospect's needs. But suitability drives deeper than that. Today, given the newness of long-term care insurance (LTCI) and the uncertainties surrounding it, suitability also requires attention to the prospect's ability to understand and manage the recommended product. Suitability depends as much on the prospect's capabilities as his or her needs.

This adds to the agent's challenge. Agents need the skills not only to understand and present the product in layman's terms, but also to conduct a thorough assessment of the prospect's needs, wants, and financial situation. Agents must also educate clients so they can make informed decisions in designing and managing their LTCI policy.

Here, suitability is focused on the relationship between a recommended product and the client's needs and capabilities. For each prospect, on a case-by-case basis, suitability is determined by asking

the following questions and analyzing the answers:

1. What are the individual's needs and wants?
2. What product (or products) can help meet those needs?
3. Does the individual understand the product and its provisions?
4. Does the individual have the capability to manage the product?
5. Is the agent's recommendation in the prospect's best interest?



What are the individual's needs and wants?

In every LTCI sale, the principle of suitability demands an answer to the question, "What are the individual's needs?" LTCI can meet various needs, including protecting assets, providing choices in care providers, maintaining one's independence so as not to be a burden on children, or avoiding the ever-changing government programs. Where there is a need or desire for

financial protection, there is the potential for a suitable sale.

Purchasing LTCI is both a logical and emotional decision. A suitable sale occurs when an applicant knows the policy is right for him or her both logically and emotionally.

What product (or products) can help meet those needs?

Conceptually, LTCI is a simple product. When someone loses their ability to remain independent, they get money to pay for care. In actuality, it is much more complicated than that. There are five basic choices to be made. Within those choices are many options. Different companies offer different options. Some companies offer benefit choices beyond the five basic ones.

Consequently, before a specific product is recommended, the agent must examine many other issues:

- The reason for purchasing the coverage
- The nature of the insurance need (temporary or long-term)
- The individual's ability to pay the premium for the extent of the need
- The prospect's sensitivity to price and the cost/benefit trade off associated with that sensitivity
- The willingness to reapply and purchase additional coverage in the future
- The integration of LTCI with existing insurance coverage and the complete retirement plan

- The individual's need or desire for product flexibility
- The likelihood that the individual's needs will change in the foreseeable future
- The individual's tolerance for risk versus his or her desire — or need — for guarantees

Evaluating these factors places the agent in a far better position to make a suitable product recommendation. Doing so is the essence of needs analysis, which everyone agrees is the best way to determine the type and amount of insurance protection the individual should have. The quality of an agent's services and the suitability of the recommendations are directly related to the kind of analysis he or she offers.

Does the individual understand the product and its provisions?

It is not enough to determine a prospect's needs and recommend an appropriate solution. If the applicant does not understand the product or its provisions, a suitable sale has not been made.

Agents must educate prospects and fully explain a product's features and benefits. Given the newness of LTCI, this is essential. Prospects are exposed to jargon they have never heard before and frequently don't question unfamiliar terms because they are afraid of appearing ignorant or uninformed. Agents must recognize this challenge and spend extra time explaining contractual provisions to prospects.

Any preconceived notions a prospect might have about the product must be explored and any misconceptions must be dispelled

before taking an application. This takes skill in asking the right questions and listening to the answers, both the words and the level of confidence in the prospect's voice. The agent must know how the product functions, how it is expected to perform, the needs it fills, and how

quickly; for example, a spouse can die or an investment can fail.

Retired people worry about having enough money to last their lifetime because they know they can't just go back to work at their last salary to rebuild their retirement nest egg. Circumstances change and, conse-

"Retired people worry about having enough money to last their lifetime because they know they can't just go back to work at their last salary to rebuild their retirement nest egg."

it fits into the prospect's total financial or retirement plan. This all takes time and patience.

Does the individual have the capability to manage the product?

In trying to determine an individual's ability to manage an LTCI policy, too much attention is focused on the prospect's ability to pay premiums — now and in the future. Well-trained and qualified agents work with prospects in assessing their financial situation and determining whether excess income exists to pay the LTCI premium.

Then the prospect is asked to get out a crystal ball and try to look into the future to identify possible changes in their finances. Will these changes impact the future affordability of premiums? This is just the first of many steps involved in assessing a prospect's capability to manage the product.

LTCI products present an element of uncertainty to buyers. The choices to be made are different from the choices that have to be made in purchasing other insurance products. The options within those choices are extensive. Furthermore, a client's circumstances can change

quently, choices one made yesterday are not the same choices one would make today. All this can create considerable anxiety.

Clients should not have to manage their LTCI alone. A professional insurance agent maintains and nurtures a permanent relationship with his or her clients. This alleviates much of the anxiety people feel about their retirement and long-term care. Over time, the agent may need to make adjustments under the following circumstances:

- If the policy does not include inflation protection, the agent may have to adjust the daily benefit as the cost of care increases.
- The agent may have to adjust the elimination period after the client receives an inheritance and is willing to pay more out of pocket for the cost of care.
- The agent may have to adjust the benefit maximum because a spouse dies and the widow's income is significantly reduced.

(continued on page 8, column 1)

Suitability In Action

continued from page 7

- The agent may have to adjust the covered providers because the only home care agency in the area goes out of business.
- The agent may have to adjust the inflation protection because the cost of care is rising at an unexpectedly high or low rate.

Is the agent's recommendation in the prospect's best interest?

An insurance agent has one principal reason for calling on a prospect: to offer a product that will benefit the prospect. The agent must determine what is "beneficial" in relation to the totality of the prospect's situation: his or her needs, understanding, knowledge, motivation, acceptance and means.

A LTCI policy offering \$250 a day with automatic inflation and an unlimited maximum will benefit almost all individuals, but it is not practical or suitable for everyone. It is never in the prospect's best interest to buy more insurance than he or she can afford.

Suitability demands that the recommended product address the best interests of the prospect, not the producer. Putting the prospect's interests first ultimately serves the agent best. This fosters a relationship-driven, consultative approach to one's sales efforts and helps build the kind of client relationships that produces repeat business and referrals — the lifeblood of successful agents.

The rules of suitability are not precise, but at the same time they are not complex. Agents following one common sense rule will not

have their integrity questioned. The rule is don't recommend an option that doesn't fit the prospect's needs or wants. Hence, an agent who manipulates a product recommendation to suit his or her own needs for a higher commission before those of a client violates this simple rule. The agent who bases his or her recommendations on the client's needs, abilities and best interests conforms to the spirit of suitability.

Some people feel that there is a conflict of interest in having agents involved in such an important decision. Most agents receive their compensation for making sales, not for just providing information or service. But the agent will not make the sale unless the prospect is assured the agent is working in the prospect's best interest.

And most prospects need an agent to educate and motivate them to make a decision. An agent making a suitable sale is an advocate for his or her client.

The pledge of the Chartered Life Underwriter (CLU) perfectly sums up the spirit of proper suitability:

"In all my professional relationships, I pledge myself to the following rule of ethical conduct: I shall, in light of all conditions surrounding those I serve, which I

"Suitability demands that the recommended product address the best interests of the prospect, not the producer. Putting the prospect's interests first, ultimately, serves the agent best."

shall make every effort to ascertain and understand, render that service which, in the same circumstances, I would apply to myself."

Summary

There is no single definition for suitability. It's one of those concepts like "character" that one knows when one sees it. Regulators, consumers, agents and insurers are all striving to achieve a perfect balance of each other's needs to create the perfect market.

Suitability is achieved when a consumer makes the difficult decision to purchase a LTCI policy. Many entities and dedicated individuals have worked to shape the product into the viable insurance product it is today, a product poised for wide spread acceptance. This will only happen if agents, insurers and regulators strive to balance each other's interests in a spirit of cooperation for the purpose of making all sales of LTCI policies suitable.

If you would like more information regarding this reprint, you can contact Robert Redman at Dearborn Financial Publishing in Chicago. He can be reached at redman@dearborn.com.

