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# The Group Network

by Chuck Breen, Group Editor

"Who am I, what is my purpose in the universe?" This is a philosophical question we have all asked ourselves. Have you asked: "What is group long-term care insurance? What is a group's place in the marketplace?"

Welcome to the first edition of the group networking track for long-term care insurance. The goal of this portion of the newsletter is to provide education and discussion on group products. Group LTC covers a lot of products. There is large group, small group, true group, not-so-true group, employer sponsored, association, list bill, multi-life, etc. Well, you get the picture. There are a lot of products in this market. We would like to explore all of these products and help to clear up some of the confusion about them. Also, we would like to share some sales ideas along the way to help you penetrate this growing market.

Jeremy Pincus discusses the advantages of marketing to a younger population and how private LTC sales will help take the stress off government programs. He addresses how LTC needs to become a core product for employers for this benefit to grow.

At the time our author was writing these articles, the weather was hot, families were preparing for their 4th of July cookouts and celebrations. When you read this, fall will be creeping into the air, kids will be starting school, and the beach supplies will begin to be packed away. Seasons change, products change. This market is ever growing and changing. We would like to hear your ideas and comments on the group LTC marketplace. Whether it is an article or a comment, please send it along.

Thanks for being part of our inauguration. ❈

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# The Critical Role of Group LTCI, Now and in the Future

by Jeremy Pincus, Ph.D.

A particular focus of my research has been the problem of increasing growth in both employer sponsorship of, and employee participation in, employer-sponsored group long-term care insurance plans. This is a worthy and necessary goal from a variety of perspectives:

- **Micro-simulation models of future long-term care financing show that the magnitude of projected savings to Medicaid arising from long-term care insurance (LTCI) coverage depends heavily on dramatic growth of LTCI among working age Americans.** Stimulating increased ownership of LTCI in the near term among baby boomers is critical to achieving significant future savings to Medicaid through private insurance.

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- **Purchasing LTCI at preretirement ages (40-59) is better for both consumers and the insurance industry.** Because premium costs are based on original issue age, buying LTCI at a younger age is an attempt to lock in a lower premium rate. Because younger applicants are less likely to suffer chronic health conditions, they are also more likely to pass medical underwriting. Generally, younger lives add lives to the risk pool with less processing time and expenses than the older lives.

- **Purchasing LTCI at the worksite is better for the industry and is preferred at pre-retirement ages.** Over the past five years, LTCI sales have been steadily shifting from one-on-one sales toward group or "multi-life" worksite sales, driven by the aforementioned combination of greater efficiency, affordability and insurability, as well as a limited number of insurance agents (there are only 3,000 LTC specialists nationwide to reach 80 million potential prospects). Although the multi-life approach to marketing LTCI makes a great deal of sense from the perspective of individual producers, it can only incrementally serve the goal of mass adoption of LTCI, since the goal of most multi-life producers is to "carve out" executive classes only.

Because of the critical importance of employer-sponsored group LTCI to our society, tax incentives should be targeted to support worksite sales of LTCI by permitting inclusion of LTCI in Section 125 "cafeteria plans" and by allowing tax-free withdrawals from flexible spending accounts for the purchase of LTCI. Because these plans are tied to employment, provisions would need to be made for carrying plans over into retirement. Because full above-the-line tax deductibility for both individual and group policies has proven elusive due to its estimated cost, it would be prudent to pursue section 125/FSA deductibility now.

- **The Congressional Budget Office has estimated the 10-year cost of inclusion of LTCI in cafeteria plans and flexible spending accounts at $1.7 billion**, a figure that is dramatically less costly than the $12 billion estimated for the proposed caregiver tax credit and $28 billion for the proposed above-the-line tax deduction on all LTCI policies.

- **Health Savings Account legislation effectively permits group LTCI premiums to be paid with pretax income today**, although this is limited to those few employers who offer high-deductible health plans. Nevertheless, there is no policy-based rationale that would permit pretax premium payment for one type of employer arrangement and prohibit pretax for other employer arrangements.

- **Inclusion of LTCI in cafeteria plans and FSA's would significantly boost ownership levels.**

    o Baby boomers are highly price sensitive when considering the purchase of long-term care insurance. That is, a small change in price is associated with a relatively large change in demand (for the technically minded, price elasticity of demand = -1.3). We estimate that the cafeteria plan/FSA liberalization would result in an average decrease in premium cost of 21 percent, corresponding to a 25 percent to 28 percent increase in new enrollments in the first year.

    o Survey research has consistently shown that 84 percent to 89 percent of current non-owners would be more likely to purchase LTCI if a tax deduction lowered the cost of ownership. Those aged 40-59 are disproportionately motivated by such tax incentives.

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1) On June 14, 2005, the latest above-the-line bill was introduced (Long-Term Care and Retirement Security Act of 2005). Five similar bills have been introduced in the past two years; all died in committee:

- H.R. 5110, The Comprehensive Long-Term Care Support Act of 2004
- H.R. 4595, The Ronald Reagan Alzheimer's Breakthrough Act of 2004
- S. 100, Access to Affordable Health Care Act of 2004
- H.R. 2096, The Long-Term Care and Retirement Security Act of 2003
- H.R. 1083, The Lifespan Respite Care Act of 2003

**These changes would create incentives for insurance companies to enter the employer-sponsored LTCI market.** After a series of market exits, the LTCI market is increasingly concentrated among a small number of carriers. In the individual LTCI market, the top four firms represent 66 percent of new sales, compared with only 27 percent in the individual life insurance market. In the group LTCI market, the top four firms represent 90 percent, or nearly all, new sales. It will become increasingly difficult for any further consolidations to take place, as these market concentrations approach the anti-competitive zone designated by the Department of Justice. There is a clear need to motivate insurance companies to enter the employer-sponsored LTCI market to provide stability.

Beyond stimulating sales of employer-sponsored LTCI through tax incentives, there are a variety of other measures that can and should be undertaken by the industry itself. These measures include improving product marketing and positioning, ensuring the future relevance of the product itself and demanding a disciplined competitive approach to product, pricing and underwriting going forward.

**Moving toward a financial planning positioning.** Actively changing the positioning of LTCI from the current themes of "health and disability" toward a financial planning platform is critical to future growth. Consumers invariably refer to LTCI as "long-term health care," which presents a more significant barrier than first meets the eye. Whereas health insurance/managed care focuses on curing diseases and preventing early death, LTCI addresses quality of life issues. In this way, LTCI is much more like defined benefit and defined contribution plans. Those without significant assets at retirement will have limited options for quality of life, relying on Social Security for income and Medicaid for LTC; those with greater assets should be able to rely on their accumulated investments for income and LTCI for high-quality life assistance. As the first baby boomers begin to retire in six years, their highest priority (and therefore, the nation's highest priority) will be retirement financial management. LTCI will need to be fully integrated into employment-based (and individual) retirement planning to benefit from this surge of activity.

Beyond the overall positioning, LTCI messaging is in critical need of improvement. Current marketing does not sufficiently resonate with most American adults. Since all boomers are not alike, LTCI marketing would greatly benefit from a segmented view of the boomer market.

**Moving toward a future-relevant product.** A revolution is underway in the development of assistive technologies involving telecommunications, computing and robotics that will radically change the delivery of LTC services supporting greater long-term independence. Today consumers almost universally view LTCI as "nursing home insurance," at a time when nearly one-third of American adults would rather die than live in a nursing home. Imagine the possibilities if LTCI were used to pay for services that were not dreaded, but welcomed as a normal part of aging in place.

Adequate inflation protection, within flexible guidelines, is another essential component of maintaining product relevance over many years. A compounding inflation adjustment that is tied to the *actual* rate of inflation of private pay LTC services is needed to avoid the twin perils of either under-insuring or over-insuring. Such an inflation adjustment presents challenges for data collection (it appears that no one currently tracks private LTC service costs in a systematic, reliable way). These are challenges for pricing; nevertheless, these are problems worth solving.

**Moving toward effective industry stewardship.** The problems leading to the recent "perfect storm" (simultaneous violation of assumptions of high lapse, high investment performance, low morbidity, low expenses and high sales performance) that caused several carriers to exit the market and others to raise rates on new or existing business were not unforeseeable. Overly optimistic expectations are not the instinct of most actuaries; I've found most actuaries to be rather conservative by nature. This kind of optimism is generally the by-product of the intense competitive pressure that precipitates a "race to the bottom." Although regulators have now instituted systematic rate stability, going forward the industry must do a better job of steering clear of danger zones (e.g., combining limited-pay, compounding, unlimited lifetime benefits) to earn the long-term trust of distributors, policymakers and consumers. ❋

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