



SOCIETY OF ACTUARIES

Article from:

Long-Term Care News

August 2002 – Number 6



Long-Term Care News

The Newsletter of the Long-Term Care Insurance Section

Published in Schaumburg, IL by the Society of Actuaries

Long-Term Care Insurance

Many Markets, Many Products

by Lawrence L. Hoffman



After many years marketing long-term care insurance, success in this market is still hard to come by. An unfulfilled, large and growing market exists for insurance responses to issues related to funding the costs of long-term care. Over the years, many excuses have been given—the public believes Medicare will take care of long-term care expenses, the relatively high cost of insurance, buyer denial, and the idea that you don't need long-term care insurance if your assets and/or income are greater than some arbitrarily established threshold—to name a few. The Medicare excuse has been largely overcome, and premiums are affordable for a wide range of buyers in the prime age 50's market segment. As for buyer denial, perhaps it is a cover for the frustration at not being able to determine, even with the help of an agent, for how long benefits should be payable and how much benefit will I need 10, 15 or 20 years from now when the benefit will be called. (Who can predict with any certainty that a five percent inflation factor over such a long period of time will be adequate?) For the wealthy and the high earners, estate planning and asset distribution issues become even more complex given the need for long-term care.

In addition, because of the way long-term care is delivered is still evolving, today's policies may not meet the long-term care delivery model 10, 15, or 20 years from now. Look how long-term care

insurance has evolved from pure nursing home care to including home care, assisted living care, community care facilities, and Alzheimer care units in an after-the-fact effort to keep pace with the evolving long-term care delivery model. Who knows what will come next? How can we expect today's policies to cover tomorrow's realities, when yesterday's policies don't cover today's realities? Long-term care is a work in progress, still evolving. Insurance product development should also be an evolving work in progress.

Given today's realities, perhaps the reason (not the excuse) for lack of market success is that something has been/is wrong with the product being offered. Perhaps once again, the life insurance industry, in consort with the regulatory authorities, has created a product design (while much better today than yesterday, and certainly much better than nothing at all) that is inherently flawed.

Success in the marketplace can be achieved when there are proper alignments of market, product and distribution. The market exists and the need is evolving, and since many forms of distribution have been tried with limited success relative to the size of the market, perhaps focus on the nature of the market and the fundamental product design is long overdue and can help lead us to answers.

Current long-term care insurance has design attributes common to disability insurance (dollars per day for a period of time subject to certain triggering events

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Lawrence L. Hoffman is an independent consultant to the insurance industry. He has over 12 years experience in LTC insurance product development, marketing, and administration. He can be reached at 973-701-6788 or via e-mail at LLHoffman@aol.com.

occurring), as well as medical insurance (reimbursement for necessary covered costs—but only up to a daily limit just like disability insurance). Some real differentiation (ignoring all the bells and whistles that have been added over the years to try



to make the product more saleable and “different”) has evolved—pure indemnification even when there are no costs of care to reimburse/indemnify, and an expense incurred reasonable and customary reimbursement “major medical” type model. These have met with limited success as well; but, these relative successes reflect that there are different market segments to be exploited.

The newly evolving annuity model—kick-up in monthly annuity payments for covered long-term care—makes sense; but, it inherently narrows the market by entry age and entry price. However, it is a step toward expanding the market from the present “one size fits all” mentality.

Over the years, we have sold life insurance “in case of premature death” (without having ever explained what is “premature” about any death). Perhaps it is time to consider that terminal long-term care is that “premature death” after all, and design long-term care insurance

around a life insurance model. While there is a certainty to death, the odds of needing long-term care, particularly at advanced ages, are quite large.

Regulatory constraints have helped create the current “one size fits all” product mentality (for which there is admittedly a large and growing market). For example, the expense-incurred reasonable and customary reimbursement “major medical” model ran into stiff resistance in several states and was forced into a per daily maximum benefit design in some states. Creative ways (not necessarily uniform) for handling the reasonable and customary definition had to be devised.

Just as life insurance products lend themselves to flexible and creative long-term financial and estate planning, so should long-term care insurance—no matter what shape or design it may take. The annuity model, including private pay annuities, is a first step, albeit for narrow market segments. Other product designs based on life insurance and other annuity models could target other market segments to help create a robust market for solving insurance funding of long-term care needs. Capture the imagination of the big-ticket life insurance producers and see how fast the notion that you can be too rich to need long-term care insurance disappears.

The long-term care insurance market needs to be segmented and matched with other product designs, and aligned with the right distribution channels. To accomplish this, actuaries and marketers have to climb “out of the box” to work together to overcome product design, pricing, reserving and regulatory problems.

Designing products that are targeted to various market segments should be relatively easy. The hard part will be getting insurance companies to step up to the plate. The harder part will be trying to get the regulators out of the box that they, with the help of the life insurance industry, have created. Erasing what has already been chiseled in stone may prove the most challenging.

Until now, long-term care insurance has been essentially one product for one market. It is time to focus on various products for different market segments and address all the challenges. □