



SOCIETY OF ACTUARIES

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Thoughts of a Landscaper

by Jason B. Bushey

My family and I live in a small subdivision. Recently, we discovered that we had a drainage issue on the lot line with one of our neighbors. It was serious enough that it could not be ignored. After some discussion with the other owner, the agreed-upon solution was the installation of a French drain. (A French drain is a permeable pipe surrounded by stone in the bottom of a trench which collects and drains away water from a low spot in a yard.) We also agreed to split the cost equally. I was responsible for getting quotes from landscapers to do the work. Unfortunately, the quotes were much higher than what we were both willing to spend. I, having grown up on a farm where I spent countless hours each year during my youth doing physical labor, suggested an alternative: The other owner would pay for the materials and I would do the labor myself. The other owner happily agreed to this arrangement so I starting planning the project.

Well, as you can probably guess, the project was not easy and took longer to complete than I had anticipated. However, doing it myself saved me a significant amount of money, resulted in my losing 10 pounds that unfortunately I am sure to easily gain back, ensured that the French drain was completed to my liking, and gave me the satisfaction of completing a difficult project. I cannot take 100 percent credit for the project as I could not have done it without help from others or at least as fast or as easily.

- My wife did more around the home and with our children to make up for my inability to do my fair share of the responsibilities because of the time spent on the project.
- My wife went to the local home improvement store one day to buy some supplies, which allowed me to continue to work on the project uninterrupted.
- A co-worker lent me a surveyor's tool that greatly reduced the effort it took me to ensure the trench had the correct grade.
- I hired three neighborhood youths during the last morning to help me transport the excess dirt to another part of the yard and clean up the project area. I hired them to reduce the amount of time necessary to finish the project as well as to take over the bulk of the remaining work as I was becoming physically worn out from the many hours moving dirt and stone over the last few days—I am no longer that teenager working on the farm.

Shortly after the completion of this project, I was searching for ideas for this article. With the landscaping project so fresh in my mind, I realized that I could relate this project to the long-term care insurance (LTCI) industry.

The LTCI industry's focus has been on providing what I would call full coverage. After a short or even nonexistent elimination period, the policy would provide benefits that would be in the range of cost of the long-term care (LTC) services provided for a period of time. In many cases, the period of time would be unlimited. The goal was to minimize the out-of-pocket expenses of the insureds while they received paid care. As we all know, this type of coverage is very valuable but is expensive. Annual premiums in the typical buying ages for one insured can easily top \$2,000 and approach and even exceed \$4,000 for a couple. Therefore, because of the high cost, the viable market for this type of insurance is limited to a certain segment of the U.S. population that has enough disposable income and is willing to part with it for this type of insurance.



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A radically different type of insurance product must be created to attract more applicants.

The LTCI industry is well aware of this barrier and has tried to find ways to reduce premiums and still provide good value. Some examples are:

- One carrier created a product with a co-pay to promote cost sharing between the insured and the carrier.
- Some carriers have eliminated some of the ancillary features.
- Many carriers offer cheaper versions of inflation protection than the standard 5 percent compound.
- Most carriers are embracing the Partnership products that allow insureds to buy policies with shorter benefit periods due to ability to more easily qualify for Medicaid if the insured exhausts the policy's benefits.

The theme of these modifications is just a reduction in the amount of coverage provided by the full coverage plans—just providing less of the current benefits. These modified plans are still too expensive for LTCI to be sold to a large percentage of the U.S. population. A radically different type of insurance product must be created to attract more applicants. Let's go back to my landscaping project to discuss what this new product could look like.

For my project, hiring a landscaper to take 100 percent responsibility for the work is similar to somebody buying an insurance policy that provides comprehensive LTCI coverage. I, like many U.S. consumers, did not want or could not afford to spend the money to buy that level of coverage. Looking at the current product modifications that the LTCI industry offers, the corresponding actions that the landscaper could take to reduce the price would be (1) shortening the length of the French drain by a few feet, which would force me to lengthen it myself, (2) I could work alongside the landscaper to reduce the labor cost, or (3) allow me to pay for the materials. However, each option would not significantly reduce the price. What I chose to do was radically different—I chose to do the work myself. This is similar to the approach that many families in the United States use to provide care for a loved one since the vast majority of them lack LTCI; they do the work themselves as long as the insured's condition allows it. There have been countless articles on the challenges of family caregivers. The industry should design a product that will fit the needs of families that take care of their own loved ones. In other words, one of the key features of the product would be providing assistance to the family caregivers to ease their burden.

As I stated before, I received help with my landscaping project. I was lent some tools that made my work easier. That could be comparable to a product paying for a home modification like grab bars in the bathroom. My wife picked up my slack around the house. That could be comparable to respite care—giving me a break. Finally, when the work was becoming too hard, I hired some help. These helpers could be comparable to handing the care over to professionals when the insured's condition becomes too severe. Traditional LTC-style benefits being provided after a very long elimination period or after satisfying a more stringent benefit trigger would be comparable. A short-term care product with a very long elimination period comes to mind. The cost of products providing these benefits would be much less than the current LTCI products because they would provide fewer benefits but they would still provide value to the insureds and their families. They would not take

away the burden of care from the family, but they would reduce the burden and do it at a fraction of the cost of a traditional LTCI product.

Obviously, current LTCI regulations would not allow the type of insurance product I am describing. However, the current and ever-worsening impact of Medicaid LTC service expenditures on state budgets should provide a great incentive for regulators and lawmakers to think about changing the regulations to allow different types of insurance products to ease the burden on Medicaid. If the regulations could be changed, consumers would have the choice of the traditional stand-alone “full coverage” LTCI, LTC combination products, and the aforementioned new type of LTCI.

This is my last article as chair of the Long Term Care Insurance Section. I want to say that I appreciated the opportunity to serve the section over the past three years and have greatly enjoyed the experience. ■

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