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Insights Into Consumer Behavior: What We Learn From Twenty-Five Years of Research on Long-Term Care Insurance Buyers and Non-Buyers

By Eileen J. Tell and Marc A. Cohen

If, as some say, the market for stand-alone long-term care (LTCI) insurance is in decline, with sales of combination products and other private finance solutions today outpacing sales of the traditional product, what could we learn from this latest installment of 25 years of research on buyers and non-buyers of the traditional product? In fact, there is much to learn. These studies provide important current and historical insights into why consumers seek out LTC protection, how

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they make purchase decisions, and what obstacles impede the sale. The motivations and concerns consumers have expressed over more than two decades—with regard to risk awareness, the value proposition for planning ahead for LTC needs, and the channels through which they prefer to obtain coverage—provide guidance for the effective marketing and sales of other variations of private LTC protection. This article provides an overview to key findings from the 2015 report and identifies important issues of relevance across product types.

ABOUT THE RESEARCH

Beginning in 1990, leading LTC insurers have participated in a vital series of consumer surveys to better understand

important issues related to their purchase or non-purchase decisions and their perspectives on the market and the product. The study is conducted every five years by LifePlans, Inc., with financial support from America's Health Insurance Plans (AHIP). The surveys provide important insights into consumers' attitudes about insurance, knowledge of LTC risks and costs and motivators and impediments to purchasing coverage. The studies include a consistent set of important questions identifying changes over time in these dynamics. Additionally, each survey includes questions germane specifically to current and emerging trends in product, marketing, insurer, agent, and government roles and other topics in that year. The 2015 survey included 1,326 people who bought LTC insurance that year (Buyers), 225 people who considered the purchase but declined to buy (Non-Buyers) and a telephone survey to a random sample of 800 Americans age 50 and older. Additionally, the specific policy design features of just under 9,000 recently sold individual policies were analyzed to understand the type of coverage being purchased.

LTC AWARENESS

Over the decades, the decision to buy LTC insurance is grounded in an acknowledgement and understanding that there is a real and significant risk of needing costly LTC and that neither Medicare nor Medicaid will cover this risk for individuals that have meaningful levels of income and assets, unless they spend down their wealth or transfer it before the need arises. Unlike non-buyers, however, buyers are more likely to correctly understand that without coverage, they or their family would have to self-pay for care (66 percent vs. 48 percent). Even though non-buyers are somewhat more aware of these harsh facts compared with the individuals who may have never considered the purchase of insurance, that is, those in the general target population (48 vs. 38 percent), they are not as well-informed as are the buyers. Similarly, buyers are more likely to correctly assess the magnitude of the risk for needing care compared to both non-buyers and the general population, both of whom are less likely to acknowledge the risk. The implication is that it is critically important to continue to raise awareness about the risk, associated cost and lack of public coverage for LTC. While insurance-based mechanisms for privately funding LTC may evolve over time, penetration will likely remain small, as consumers will not embrace a solution to a problem that they are unable to acknowledge and understand.

WHO ARE THE BUYERS?

People who buy LTC insurance are more likely to be married and/or female, compared with both non-buyers and the general older adult population. Both buyers and non-buyers have greater financial well-being, in terms of income and assets, as compared to the general population. The gender mix among

Figure 1
Who Pays for LTC?

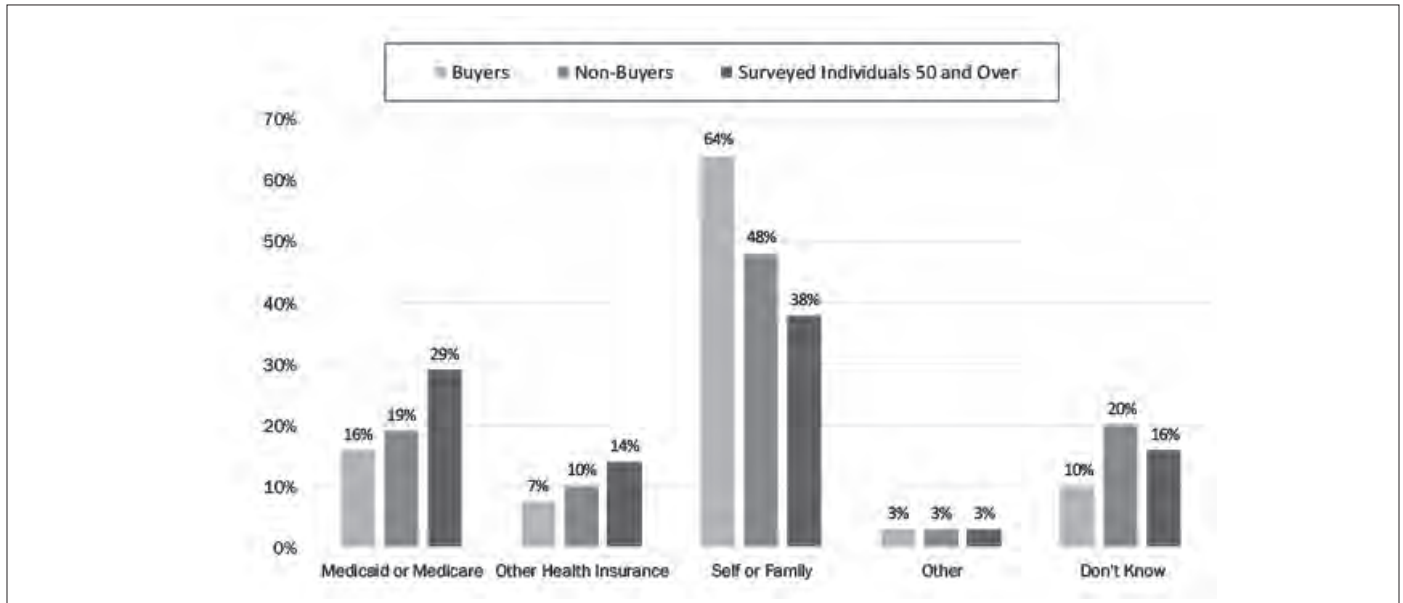
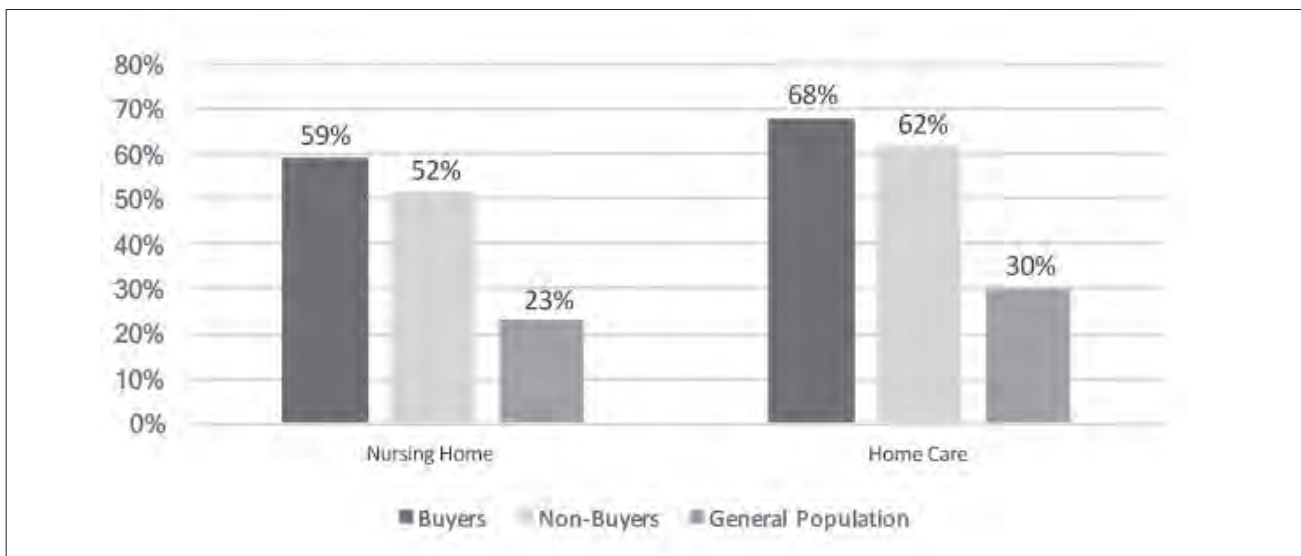


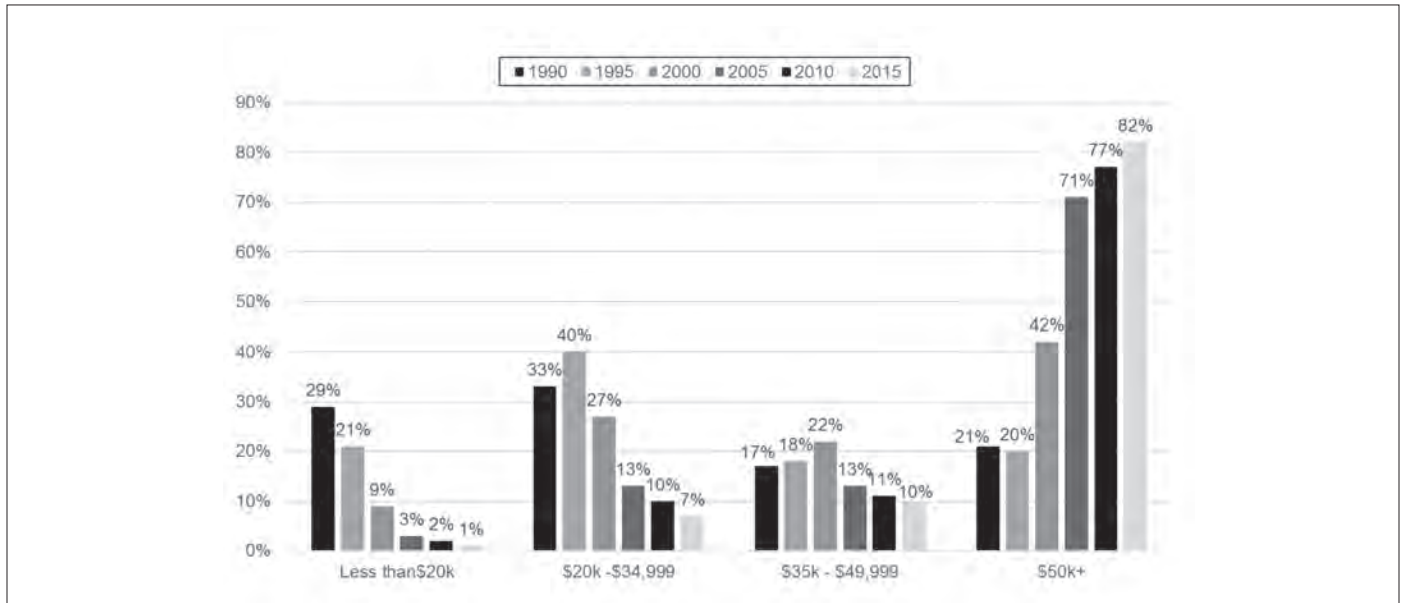
Figure 2
Believe They Have Greater Than 50% Chance of Needing Care



purchasers has narrowed considerably over the last decade; currently 54 percent of new buyers are female whereas in earlier years, females comprised roughly two-thirds of buyers. Gender-distinct premiums which offer lower premiums for males and more robust marital discounts likely account for this shift.

One of the most striking changes over time, of course, is that today's buyers are more affluent than were buyers in earlier decades. Over 80 percent of today's buyers have incomes of \$50,000 or more, nearly double the percentage in that income category (42 percent) in 2000. The change in the wealth

Figure 3
Income of Buyers by Purchase Year



profile of individuals purchasing the product is also a result of the fact that products prices have increased significantly over time. Fewer middle income people are attracted to the product at current prices. Today’s LTC policies cost more both because of pricing adjustments that more accurately reflect the current morbidity, interest rate and lapse experience but also because coverage sold today is more comprehensive than that purchased in earlier years.

BUYERS’ DECISION-MAKING PROCESS

People buy LTC insurance for different reasons. For many, protecting assets is the most important reason they cite. But also important are ensuring the affordability of LTC services and being able to avoid being a burden to loved ones. Buyers also clearly have a different view of the value proposition and affordability than do non-buyers, even in light of highly publicized rate increases in the past few years. Buyers seem to be paying attention to point of sale information about past and potential future rate increases. About 20 percent of today’s buyers are aware that the company from which they bought their policy had increased rates in the past. And just under 40 percent say they expect to see a rate increase in their coverage at some point in the future. Yet these buyers see a value proposition in making this purchase.

Buyers do not appear to be comparison shopping with regard to the traditional vs. combination LTC insurance product. The vast majority (84 percent) of buyers either did not consider or were not aware of combination products. Only 20 percent of

buyers considered either a life/LTC or annuity/LTC combination. This suggests that agents are either marketing to distinct market segments or that individuals are self-selecting toward one or another product type.

NON-BUYERS HAVE A DIFFERENT PERSPECTIVE ON AFFORDABILITY

The largest objection to product purchase continues to be cost. Since 1990, more than half of all non-buyers have cited “LTC insurance costs too much” as a very important reason for not buying. While other purchase objections have declined over time—such as a mistrust of insurers and the difficulty of making a choice among confusing products—the perception that the product costs too much has sustained as a prime factor. Even so, when asked what they could afford, 24 percent of those choosing not to buy a policy expressed a willingness to pay a premium in line with the average monthly premium for their age for the type of coverage currently sold in the market. Taken together, these findings suggest that many of the non-buyers simply do not see the value of the coverage relative to its price or are not fully convinced of the product’s relevance for them.

DO SOME NON-BUYERS INTEND TO BUY IN THE FUTURE?

As in prior years, non-buyers are not fully closed off to the idea of buying coverage at some future point in time. While 31 percent indicate they will never buy a policy, 44 percent are undecided and 26 percent do plan to buy coverage closer to or after retirement. Just over half of the non-buyers also indicated that they might be

more likely to buy a combination product. It is important to note, however, that the features and costs of those alternative product options were not presented in the survey. Nevertheless, non-buyers retain some interest in private insurance options as an option for addressing future LTC concerns.

IMPLICATIONS FOR COMBINATION PRODUCTS AND OTHER NEW PRODUCT CONFIGURATIONS

While the market for standalone LTC insurance is currently stalled and even in decline, new product options have emerged and are addressing at least one obstacle inherent in standalone products: one can pay premiums for many years and get no financial benefit back if the need for LTC does not arise—something that is likely to occur for roughly half of insureds. And although these new product options are designed to address this “use it or lose it” marketing challenge, other important obstacles to purchase still exist. These include confusion and misunderstanding about the magnitude of the risk, the need for the product as well as its cost. While we do not have publicly-available research about buyers and non-buyers of combination products, anecdotally, cost concerns remain a major obstacle to purchase, and will likely limit the ultimate reach of these products.

OPTIONS FOR LOWERING PRODUCT COSTS

Lowering product costs while also providing the coverage consumers want, in the context of greater rate stability presents a difficult challenge, to be sure. Some important cost-cutting proposals require legislative, tax and/or regulatory reform. Others assume significant public expenditures. For example, in the current study, the most important factors cited by non-buyers that would lead them to consider purchase are to include one or more of the following: a government back-stop to coverage; an income tax deduction for premiums; and the ability to use non-taxable funds such as IRAs or 401(K). Other product changes that would result in lower premiums include alternative amounts and types of inflation protection, expanding copayments and deductibles, making premium increases more palatable by allowing smaller but more frequent premium increases, including components of term pricing and others.

Enabling less costly distribution channels for sales is another option for both lowering premiums and boosting consumer confidence in and access to products. The majority of non-buyers said they would be more interested in buying a policy if they could do comparison shopping on the internet, although few are interested in buying online. This sentiment, along with interest in employer sponsored coverage, is also found among the general population of older adults, with three in five saying they would be more interested in learning about LTC insurance through a sponsoring employer.

A number of concrete cost reducing actions might include; (1) simplifying and standardizing products (similar to Medigap

coverage), with the aim of maintaining consumer choice while reducing selling costs; (2) changing the structure of premium payments so there is some level of indexing which would likely address cost as well as premium stability issues; (3) making it easier for consumers to purchase coverage by having employers and other organized purchases of insurance play a role in organizing opportunities for the purchase of LTC insurance (e.g., making the insurance available in conjunction with the purchase of health insurance, other employee benefits or even Medicare Advantage enrollment). These approaches can reduce selling costs, allow for broader participation and offer consumers more convenient ways to learn about and confidently purchase LTC insurance.

CONCLUSION

In closing, this research series is a critical resource for our understanding of market forces and consumer choice architecture that must be addressed if we are to broaden the market. It can also help inform new thinking about product design changes, help us better understand the price-value trade-off, identify changes in regulation that might address specific obstacles to purchase, point the way toward new roles for employers, affinity group and trusted public sector entities in distribution as well as financing roles.

The research described here suggests that there are multiple issues to address related to consumer education, awareness and the product cost and value trade-off. Carefully-designed consumer testing and post-sale research similar to the LifePlans’ studies, can help inform the best ways of doing both of these and other changes. Without well-constructed consumer research, industry will be unable to develop new products or fine-tune existing product configurations that can successfully take hold with consumers. Because there is no “one size fits most” solution, this type of consumer research can also help industry understand which product types are best suited to different consumer needs. ■



Eileen J. Tell is president of ET Consulting, LLC., a woman-owned small business. She can be reached at eileenjtell@gmail.com.



Marc A. Cohen, Ph.D., is professor of Gerontology in the McCormack Graduate School of Policy and Global Studies at UMass Boston. He is also a senior advisor at LifePlans, Inc. He can be reached at Marc.Cohen@umb.edu.