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Understanding What Consumers Want: Critical Framework for Product Innovations

By Eileen J. Tell

Decades of product development, sales, marketing, and research on private financing for long-term care (LTC) tell us that consumers, for the most part, want to ignore the problem and hope it goes away. While some consumers acknowledge the risks and costs of needing LTC and understand that these needs are best met when they are planned for, they represent the minority. And there is still a significant gap between acknowledging the value of planning ahead and taking action toward that goal.

This is due in part to the lack of viable solutions to the LTC dilemma, as seen through the consumer lens. The social marketing literature confirms that there are two critical components to effective behavior change: (1) raising awareness of the problem; and (2) offering what the consumer deems to be acceptable solutions to that problem. To this end, the Society of Actuaries' LTC Think Tank continues to explore new private finance product options, and other solutions, so that more consumers have meaningful protection to meet their specific needs, wants and constraints.

The SOA's Research Expanding Boundaries (REX) Pool is currently funding critical consumer research to test two new product concepts which emerged from the October 2015 Think Tank initiative. The product concepts have come a long way since they were first identified by the three dozen Think Tank participants representing a wide range of LTC expertise. These concepts are now being further defined to the point where they can be tested for market appeal with consumers.

The two products being refined and tested represent different ways to enable consumers to pre-fund the costs for their future LTC needs. And both address one of the purchase objections some consumers raise with regard to traditional stand-alone LTC insurance – that is the objection that if they do not need LTC, then they have set aside funding which they cannot access or use for other purposes. (This is commonly called the “use

it or lose it” objection.) While there are combination products today that address this concern, they are generally too costly to be within the reach of the middle market. Both products, therefore, also strive to provide attractive coverage at a price point suitable for a middle market buyer. Another design objective is to broaden the appeal of LTC coverage by offering it in the context of more widely known and accepted products with which the consumer is already familiar.

The new products being developed and tested are:

1. **LifeStage Protection** is an insurance policy that begins as a term life insurance benefit during one's working years (generally up to age 65) and then switches to a LTC benefit from retirement age (or 65) and beyond. It provides a more modest amount of LTC coverage than historically offered but is designed to cover the majority of likely needs. For example, the consumer can select a \$100,000, \$150,000 or \$200,000 benefit amount. Prices vary based on the benefit selection but are typically less expensive than purchasing term life insurance and LTC coverage separately. For example, a 45 year old male would pay \$60/month for \$100,000 of coverage.
2. **Retirement Plus** is a flexible, tax-beneficial type of savings account that provides both LTC insurance when needed, but also provides an account surrender value if LTC is not needed, or if the insurance is no longer desired. In this way, it allows for saving on a tax-advantaged basis for either (or both) a healthy retirement or one in which LTC needs emerge. Consumers choose the account value based on the dollar contributions they make to the account and can also select additional LTC coverage beyond the account value if they choose to.

A critical component of effective consumer testing is a well-defined product translated into language the consumer can understand, presented along with fairly accurate age-based pricing for the product. An important piece of the consumer testing will also require the researchers to anticipate some of the likely consumer questions and concerns and be able to adequately address those during the testing. For example, consumers may ask if rates are guaranteed over the life of the product, or if they can be modified. Or they may want to know if there is medical underwriting in order to qualify or if pre-existing conditions are covered. They may also ask about limitations, exclusions and whether they have the freedom to choose their own care providers and which types of services are and are not covered.

The prototype product tested should be able to answer these questions, or, if the design and pricing is flexible to accommodate different variations, then consumers can be asked “how would you most like to see this product work?” In other words,



the product concepts need to be as fully and accurately developed as possible so that consumers are reacting to these new products in as close to their final configuration as feasible. This does, however, still leave room to fine-tune the product design and pricing based on consumer feedback.

There will be two phases to the consumer testing. The first is typically qualitative and exploratory in nature using focus groups with consumers that mirror the target demographics for each product. During the 90-minute focus group discussion, consumer impressions, interest and concerns are noted regarding the notion of LTC risks and costs, the general idea for the product solution, and the specifics of the product and its price. The conversation typically begins more broadly and takes note of the product features and price parameters that have the greatest positive and negative impact for the consumer.

Because by definition focus groups are qualitative and not representative of the general population, the findings from the focus groups are further tested with a larger representative sample of the target market using a quantitative (survey) approach. Phase two of the market testing will expand the sample size, present refined product concepts and premiums and provide a starting point for estimating product interest.

Finally, using a combination of proven and newly developed modeling techniques, the findings from the survey can be

translated into an estimate of actual purchase behavior. This modeling component can be used to size the demand for the product, explore how demand varies at different price points and product features, and to help define the specific market segments within the target market with the greatest propensity to make the product purchase.

These research activities are being conducted by Maddock Douglas, with actuarial support from LTCG Inc., and oversight from a panel of experts in LTC product pricing, market research, regulatory issues and product development. The Project Oversight Group (POG) meets by conference call to review and provide direction for critical components of the concept development and market testing.

Both research components will be conducted over the summer with a report on consumer demand and interest anticipated for delivery in early fall 2017. ■



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