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Exploring New Long-Term Care Financing Options: Results from a Society of Actuaries Consumer Research Study

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There is a critical need for new long-term care (LTC) finance products that specifically address the needs and price points of the middle income market. Traditional LTC insurance product sales are in a significant downturn, and have become less affordable over time. And while combination products (such as whole life with a LTC rider or an annuity and LTC combination) are showing strong sales momentum, they are often priced beyond the reach of many middle-income buyers. In addition, there is unquestionably room for a wide array of product solutions to meet the differing tastes and price points of various buyers. One estimate suggests there is an untapped market potential—based on those who would be both income and health eligible for an LTC insurance product of some configuration—at close to 53 million adults.[1] So instead of debating which product type is "better," a more fruitful strategy for the long-term care industry might be to continue to innovate and develop a variety of product options and identify the market segments best suited for each.

LIFESTAGE PROTECTION AND RETIREMENT PLUS

These two new LTC combination product designs emerged from work undertaken at the October 2015 Society of Actuaries' (SOA) LTC Think Tank meeting. . That two-day meeting explored more than eighty possible product innovations to address the LTC financing crisis and prioritized two to be subjects of the research study funded by the SOA Research Expanding Boundaries (REX) pool.

Both of these concepts were designed to be simpler and less costly than the combination products available today, in order to appeal to younger buyers and to be suitable for a range of distribution approaches including the employer group and online distribution to reduce distribution and product costs.

> **LifeStage Protection** is an insurance policy that starts as term life insurance during one's younger, prime income-earning years and then switches to a LTC insurance when one is older and at a point when life insurance is no longer as important but when the risks of needing long-term care are greater.

> **Retirement Plus** is a tax-beneficial, 401 (k) type retirement account that has expanded contribution limits, allows flexible use of account funds and builds in insurance elements for LTC.

IMPORTANCE OF MARKET TESTING

A critical component in the development of new product concepts is to test their market potential with consumers. No matter how much the actuaries, marketing experts, policymakers and regulators might like a product and its features, that product has no real chance of meeting consumers' needs and achieving market success if it does not also represent a realistic, attractive and affordable solution for perceived consumer's LTC needs and concerns. Too often in the product development process, the voice of the consumer is overlooked. Product testing all too often happens as products are brought to market and the "test" is whether they succeed or fail after substantial dollars have already been invested in product development, regulatory approval, marketing and distribution.

This article summarizes an innovative approach undertaken by the SOA Think Tank and Maddock Douglas, a nationally renowned innovation consulting firm to test the market potential of these product concepts using what they call an "adjusted trial" model. Explained simply, the adjusted trial model translates self-reported expressions of product purchase intent from the survey data and adjusts it using a number of factors to develop estimates of expected product purchase rates in real market situations.

RESEARCH OVERVIEW

The concept presentations and key areas of questioning were fine-tuned through a series of focus groups which preceded the development of the survey questionnaire. A 20-minute, online survey was administered to a random nationally representative sample of 800 household decision-makers who fit the following qualification criteria:

- Ages 35–55
- Not employed in a competitive industry
- At least a high school graduate
- Employed or self-employed
- Household income between $50,000 and $499,999
- Self-reported health as fair, good or excellent

Qualifying respondents were randomly assigned to evaluate one of the two concepts. The survey was fielded in September and October 2017.

PERSPECTIVES ON LONG-TERM CARE RISKS AND COSTS

Survey respondents underestimated the risk of needing LTC and did not understand that most extended LTC needs will likely be paid for out of their own income and assets. Just over 60 percent of the sample acknowledged the possibility of someday needing care at home, and approximately 40 percent felt they will need care in a nursing home. And while consumers can expect to pay on average 50 percent of aggregate LTC costs out of their own financial resources, depending upon where care is received, survey respondents say they expect to pay only one-third of their future LTC costs on their own. As we typically see with an under-age-65 population, they are more likely to believe that their health insurance or HMO/health plan will pay for their future LTC needs.

PRODUCT INTEREST

Both products received high marks on a variety of measures of product interest after consumers reviewed a brief description of the product features and benefits. Interest was first evaluated based solely on the concept and design features of the product before price was introduced. Specifically, roughly 60 percent or more of those who evaluated the LifeStage Protection product found it easy to understand, believable, had an overall favorable impression and felt it was likely to meet future needs. Impressions for the consumer respondents who evaluated Retirement Plus responded with comparable levels of interest and product confidence (see Figure 1).

While value was perceived in both product concepts, as anticipated, after exposure to price, product interest declined. For both products, interest in investigating further declined from just under 50 percent saying they would be very or somewhat likely to just under 40 percent expressing this level of interest.

MODELING REAL-WORLD PURCHASE

While these are strong indications of a product's potential popularity, stated interest on a survey, by itself, is not viewed as a reliable measure of actual purchase intent. That said, Maddock Douglas has a proven methodology for translating stated purchase intent into reliable estimates of purchase intent or what they call "product trial" estimates. Their "adjusted trial" model is based on more than 20 years of normative forecasting data from a wide variety of consumer product categories and in addition takes into account their significant experience applying that model to the insurance industry.

Assumptions for products with similar attributes to LifeStage Protection and Retirement Plus were used to translate interest into purchase intent. For example, both products require significant emotional and financial investments and a long-term commitment to the product. These are not frivolously made product decisions, so the translation from purchase intent to adjusted trial estimates in this model must meet more rigorous thresholds than would be applied to more temporary or less costly product (e.g., an annual gym membership).

In addition, respondents' purchase intent in a survey setting is typically more optimistic than it is in a real world shopping experience. Since this optimism is more pronounced among respondents who are less certain in their likelihood to buy, a

Figure 1
Product Impressions Before Price

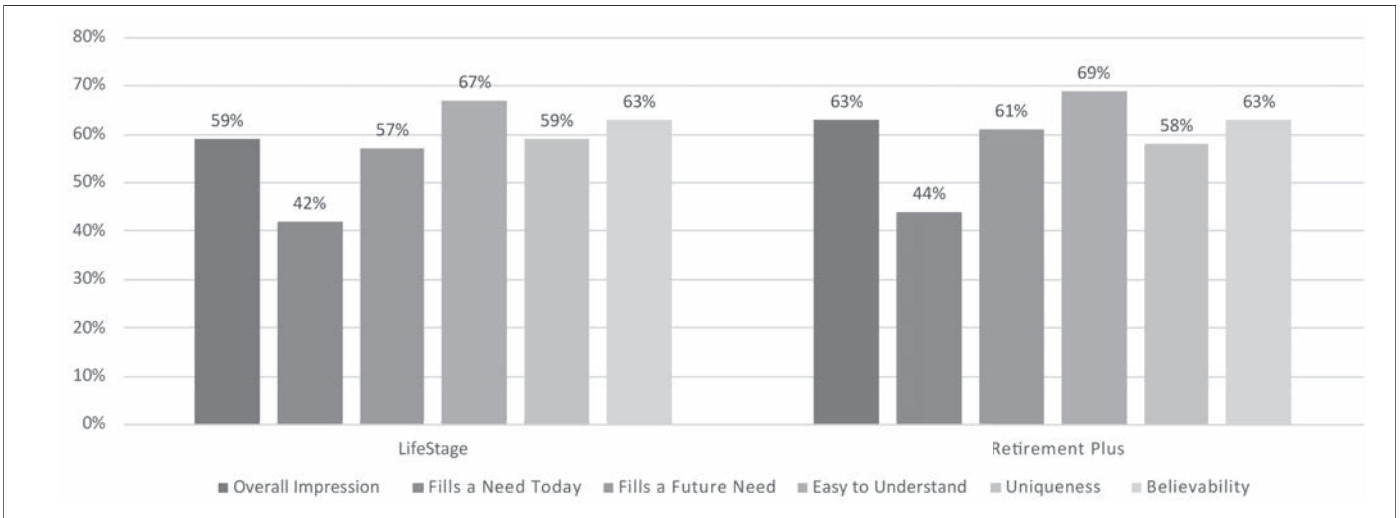
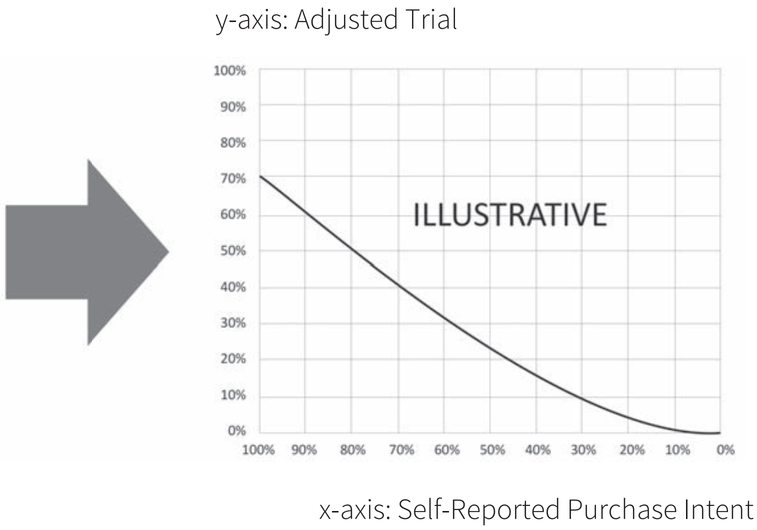


Figure 2
How Self-Reported Purchase Intent Reponses Are Adjusted to Create Adjusted Trial

- Certain (that is, 99 chances in 100)
- Almost certain (90 chances in 100)
- Very probable (80 chances in 100)
- Probably (70 chances in 100)
- Good possibility (60 chances in 100)
- Fairly good possibility (50 chances in 100)
- Fair possibility (40 chances in 100)
- Some possibility (30 chances in 100)
- Slight possibility (20 chances in 100)
- Very slight possibility (10 chances in 100)
- No chance (0 chances in 100)



larger adjustment is made for those who report lower probabilities of purchase and smaller adjustments for those who expressed a higher likelihood to purchase. The Maddock Douglas "Adjusted Trial" process accounts for this relationship and adjusts according to the levels of intent to purchase, (as shown in Figure 2) rather than having a single adjustment for all respondents.

Once these adjustments are applied, the model arrives at the "Adjusted Trial" metric that represents the percent of consumers who are projected to purchase the product within the next two years, assuming a base population of consumers with sufficient product familiarity and access to the product.

Both concepts posted strong adjusted trial metrics: 21 percent for LifeStage Protection and 20 percent for Retirement Plus. These scores are above the average Maddock Douglas typically sees for concepts at this price point in the financial services categories, which is more typically in the high single digits to mid-twenties (see Figure 3).

Figure 3
Purchase Intent and Adjusted Trial Estimates

Product	Self-Reported Purchase Intent	Adjusted Trial
LifeStage Protection	49%	21%
Retirement Plus	48%	20%

MARKET POTENTIAL

The Adjusted Trial results from the survey analysis, including age- and income-specific rates for each product, were then used along with assumptions about product access, consumer awareness, and retention rates to model estimated market potential for both products.

Product access refers to the percentage of consumers who have access to the channel(s) where the product is available for purchase. In the model shown below, access is assumed at 100 percent, because it can be available in virtually all channels that distribute long-term care insurance—employers, agents, and directly from insurance companies via telephone or internet—meaning that anyone with the desire to purchase the product would have the access to do so.

Awareness, in this case, refers to the percent of consumers who know about the product and have a basic familiarity with its details and features. The requirements for a consumer to be considered aware are more stringent than simply having heard of the product through advertising or marketing. In the real world, this level of awareness is expected to start low and build slowly. In the initial forecasting, this is estimated at 0.25 percent in year one, 0.5 percent in year two, 0.75 percent in year three, 1.0 percent in year four and 1.25 percent in year five.

The assumptions in this forecast model can be adjusted to represent different possible marketing scenarios. An alternative example for how the assumptions (and resulting market forecast) could play out differently would be if the products were only offered through the employer channel. In this case,

we would assume access to build rather slowly as employers would need to learn about the products and then decide to incorporate them into their employee benefits offerings. Market access of 5 percent or less might be reasonable in the early years. However, awareness among those who have access would be orders of magnitude higher, as there would likely be an open enrollment campaign with educational meetings, websites and employer specific mailings and e-mails. In a situation such as that, access among employees for an employer offering these products during open enrollment would likely reach close to 100 percent, and awareness levels of 60–75 percent or higher might be reasonable.

Figure 4 outlines the basic assumptions and calculations for determining the number of projected policyholders in the first two years under a broad universe scenario.

Figure 4
Calculations for Number of Policyholders

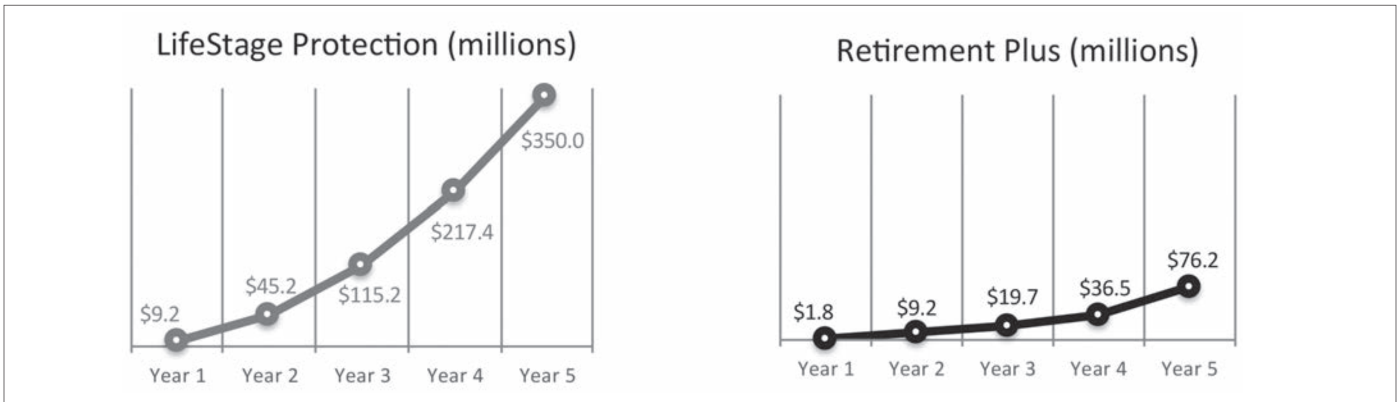
	LifeStage	Retirement Plus
Projected Universe	53,200,000	53,200,000
x Access	100%	100%
x Year 1 Awareness	0.25%	0.25%
x Adjusted Trial	20.6%	20.2%
X 50% will buy in Year 1	0.5%	0.5%
Year 1 Projected Policyholders x Year 2 Retention Rat	95%	95%
+ New Policyholders (50% of projected buyers made aware in Year 1 + 50% of projected buyers made aware in Year 2)	Year 2 Policyholders	Year 2 Policyholders

Assumptions based on real-world estimates determined in conjunction with the Project Oversight Group.

Figure 5
Number of Policyholders

	Year 1	Year 2	Year 3	Year 4	Year 5
Access	100%	100%	100%	100%	100%
Awareness	0.25%	0.5%	0.75%	1.0%	1.25%
Retention	N/A	95%	95%	95%	95%

Figure 6
Premium Revenue



The number of year one policyholders is derived by multiplying the number of people in the consumer universe × Access × Awareness × Adjusted Trial. That number is reduced by 50 percent as only half of the two-year projected purchasers would buy in the first year. Year two policyholders include new buyers among those who became aware in year one but didn't buy along with newly aware buyers at a higher awareness rate of 0.5 percent due to increased marketing efforts. It also takes into account retention rates from year one which we assume is 95 percent based on strong retention rates in both long-term care and life insurance industry products. Policyholders for remaining years are calculated in the same manner, acquiring new policyholders assuming awareness that increases 0.25 percent each year and a steady 95 percent retention rate.

Figure 5 shows the projected trend in the number of policyholders for both products from years one through five. For LifeStage Protection, enrollment grows from 13,700 in year one to 319,800 in year five. For Retirement Plus, enrollment grows from 13,400 to 314,300 by the fifth year.

Using these projections, we can also estimate premium revenue. This is based on the age distribution and benefit selection of the "buyers" from among the survey respondents' and their associated monthly premium amounts. Because the timing of purchase is spread throughout the year, revenue is assigned to only six months per policyholder during their purchase year, and then to all 12 months for each subsequent enrollment year. Revenue projections through year five are shown in Figure 6. For LifeStage Protection, revenue starts at $9.2 million and reaches $350 million in year five. The projected premium revenue for Retirement Plus is $1.7 million in year one and $76.2 million in year five. It is important to note that the premium projects for Retirement Plus are lower, compared to LifeStage because of structural differences in how the products work. For Retirement Plus, the projections only show the LTC insurance add-on component of the contributions and do not reflect the higher retirement-component contributions which will be much higher.

CONCLUSION

The need for creative and affordable LTC care finance solutions that appeal to the middle income market is critical. The market research undertaken by the Society of Actuaries' Long-Term Care Think Tank, in partnership with Maddock Douglas, provides strong evidence that both LifeStage Protection and Retirement Plus have potential to fill that role. While both product concepts are still in the development phase and have regulatory and tax treatment issues to consider, the fact that there is solid consumer research to support their market potential should help move them more quickly from product concept to product offering. This project helps pave the way for insurers and sponsoring employers to more confidently pursue these products with confidence about their likely success with consumers. And perhaps more importantly, this project provides a viable pathway forward to evaluate the potential market success of other new product concepts currently on the drawing board.

The full report, *Long-Term Care and the Middle Market: Sizing the Opportunity for New Ways to Financing Long-Term Care* (May 2018) will be available at the Society of Actuaries' LTC Section webpage. ■

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ENDNOTES

1 Tell, EJ, Cutler, JA, and Spillman, B. "Private Financing of Long Term Care: Market Penetration and Market Potential." Academy Health ARM Conference. Boston, June 2010.