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The Earth is Flat: Distribution's Bird's-eye View of the Life Combo Marketplace

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"The flat Earth model is an archaic conception of Earth's shape as a plane or disk."

—Wikipedia

For a significant portion of human existence, most believed the Earth was a flat disk floating in a body of water. Lack of perspective generally leads to incorrect conclusions and undesirable results. Even after Aristotle provided observational proof that planet Earth was spherical (330 B.C.), it took centuries for many of our ancestors to accept this reality. Today, the pseudo-science latter-day advocates of flat-Earth theory can be readily found on the internet. And of course, lest we forget, if one does not accept the truth of some new philosophy or concept, one is branded a "flat-earther."

Now that we have more credible data regarding long-term care risk, is our world flat or round?

- What have we learned from the claims history we now have? Generally, we expected the worst and were mostly right.
- We probably knew the desire for sales could lead to competitive pricing in a new market.
- We underestimated the demand consumers would have for this new category of products.
- We followed the money and ended up with a product generally geared toward a more affluent market.
- Consensus continues to be elusive regarding the basic question: "How much is enough?"
- While the bourgeoning combo market was fueled by regulation and legislation, we probably could have known a contingent approach to a marginal risk was more appropriate than a product with multiple benefits.

Does the long-term care insurance industry have its share of flat-Earth thinking that needs to be reconsidered? We can offer several "sure things" that need to land in the dustbin of history:

- All chronic illness risk is catastrophic.
- Premiums could go up, but since the company has never raised rates, they probably won't.
- Forcing agents to take eight to 16 hours of continuing education every two years will make them experts.
- Discounted, living benefits will simply, by their inclusion, provide an adequate response to the risk.
- State partnership plans will increase market penetration.
- Tax incentives, in and of themselves, will drive sales.

Does the long-term care insurance industry have its share of flat-Earth thinking that needs to be reconsidered?

Please bear with two elder "statesmen" of the marketing arena to make an observation. There are only two reasons Americans purchase long-term care or chronic illness coverage:

- Fear, felt by adult children with parents currently receiving care, that it can happen to them, and
- personal incentives to protect and preserve financial legacies.

In addition, we are currently mired in an identity crisis. What on earth shall we call the myriad new insurance planning choices being created by insurance carriers, and how do we describe the services policies paid for? No one wants to call what we're now selling long-term care insurance: too much bad press. We agree that, by law, we cannot call Internal Revenue Code §101(g) chronic illness accelerated benefit riders (ABRs) long-term care insurance. However, consider this: when comparing two policies with nearly identical qualifying event language,

one with an IRC §7702(b) and the other a §101(g), what distinction can we make? Is there any real difference other than the source of funds? Does it make any strategic difference what we call it? Currently, the field is using a number of naming options:

- The policy formerly known as long-term care insurance,
- chronic illness coverage,
- long-term support services care, and
- extended care coverage.

Is it any wonder that agents/advisers remain baffled when we introduce yet another policy designed to pay for something most consumers don't want to think about? With the rapid aging-out of many long-term care insurance specialists, we are working with a generation of financial-planning newcomers that chase the latest technologically advanced financial instrument with bright shiny objects attached.

In some ways, the current surge of combo product sales is following the same path that traditional long-term care insurance trod from 1997 to 2010, what many of us consider the golden age of traditional LTCI:

- Many remained focused on the affluent—the smallest demographic cohort.
- We're still trying to sell comprehensive coverage to everyone—too much to too few.
- We're not taking a stand against illusory policy benefits.
- The industry's consumer outreach seems to be limited.
- Agent/adviser training is inconsistent and might be off-target.
- We haven't made this easy for anyone!

Are we really going to stick to the same flat-Earth thinking employed by our not-so-distant ancestors, or can we break out and try something new that may appeal to a wider audience? In designing new combo offerings, what questions should we ask so we don't make the same mistakes?

WHO IS OR SHOULD BE THE CUSTOMER AND WHAT DO THEY WANT?

The industry has done a fairly good job of convincing affluent consumers to purchase comprehensive traditional and combo policies to protect their assets and income. In fact, companies currently offering combo policies with long-term care (IRC §7702b) or meaningful chronic illness (IRC §101g) accelerated benefits continue to scramble after well-off customers.[1]

There's no fault in this approach; as the legendary bank robber Willie Sutton said, "I rob banks because that's where the money is." However, the middle mass market represents a significant portion of the population.[2] So why not go where the people are?

We have for some time advocated focusing on the underserved middle mass market. These consumers are most at risk of being unable to choose the care they want because they are often encouraged or compelled to impoverish themselves to qualify for Medicaid benefits. These consumers are 50 to 70 years old, earn $75,000 to $150,000 per year and have liquid assets of $100,000 to $300,000. This large market would be well served with access to an affordable, simple, supplemental long-term care or chronic illness solution that would prevent them from slipping from private pay into welfare.

There should be only one goal for those concerned with extended-care risk mitigation: to help guarantee the dignity and personal choice that comes from remaining a private pay consumer. Therefore, we must acknowledge two equally valid approaches to the risk:

- Transfer the majority of it to an insurance company, and
- secure additional funding to supplement other sources of income at the time of claim

What are customers looking for when it comes to their insurance company and financial advisers? For insight, we turned to the 2012 Ernst & Young Voice of the Customer Survey,[3] the 2015 Deloitte Life Insurance Consumer Purchase Behavior study[4] and the 2016 SOA Middle Market Life Insurance Thought Leaders report.[5] The good news is consumers generally trust the life insurance industry. Even better, LIMRA reported that in 2016, over half of Americans (172 million) owned some form of life insurance.[6] This is up from a 50-year low in 2010, when they reported that "56 percent of households had *no* individual life insurance policy."

These studies confirm that consumers want a relationship with an adviser who will discuss their insurance needs and provide them with guidance. However, the public is becoming more self-actualized in their decision-making process. They want clear, simple and concise information about their options and how the financial instruments they purchase will work for them over time. Product transparency is critical. The Deloitte study sums it up clearly: "Our study suggests that the life insurance 'winners' of tomorrow will likely be those organizations that blend an advice-driven approach with a digitally enhanced engagement strategy to help meet evolving consumer expectations."

The Ernst & Young and Deloitte studies agree, it is critical to respond to the changing needs of our customers as their life cycle progresses. Strikingly, the life events we focused on in the 1970s continue to hold true; marriage, parenthood, home ownership and retirement are all key buying times for life insurance. By successfully weaving the life insurance and chronic illness messages into a consistent marketing effort, we can encourage a wider group of Americans to consider insurance planning with a guaranteed product that can withstand a lifetime of transitions.

There are hurdles to success in this marketplace, including competition for premium dollars, pricing, underwriting, providing pertinent information through various channels, and agent recruitment and training. However, these obstacles can be surmounted with affordable insurance products that appeal to consumers during various stages of their lives.

THE FORGOTTEN CUSTOMER

In our experience, life and long-term care insurance products have historically been designed in the home office with limited consumer research and little to no input from agents or distributors. Having been excluded from the process, these same agents and distributors are often unsurprised if these products ultimately underperform.

The Society of Actuaries reported that when most consumers are asked why they didn't purchase life insurance, the answer is that "no one asked them."[7] As previously noted, consumers want

to work with agents and advisers they know and trust. Perhaps those agents and advisers ought to be considered earlier in the creation, development and distribution loop before releasing a new insurance product. If you're asking valued distributors to spend their own time and money promoting a new policy, it might do some good to ask them what they want. It's not always just the lowest premium and the highest commissions.

AVOIDING THE BAD OLD DAYS

Many IRC §101g chronic illness accelerated benefit riders currently being introduced into the marketplace are a boon to consumers, agents and insurance companies. They allow us to address many of the pitfalls we grapple with on various sides of the equation. However, the life insurance industry needs to do a better job of eliminating old versions of chronic illness ABRs often hidden behind a consumer appeal to "living benefits."

These "no current cost" riders are often represented as a comprehensive inventory of potential catastrophic contingencies. The problem with the "discount" method is that it's impossible to precisely define the actual benefit paid when a claim occurs. The discounting method represents an uncertain claims future. Offering benefits that are difficult to quantify could raise some basic fiduciary concerns.

Discounted ABRs resemble the illusory benefits so often vilified in the pre-Health Insurance Portability and Accountability Act of 1996 days of LTCI. The potential for consumer disappointments when attempting to qualify for benefits under these products will certainly be followed by consumer complaints and

regulatory scrutiny. The negative press discounted ABRs garner will sully the reputations of companies using all types of chronic illness definitions and benefits. Current allowable §101g benefit qualifying language closely resembles that found in HIPAA-sanctioned long-term care insurance. Here's an opportunity for the industry to exert a level of self-policing and to do the right thing.

VERITAS VOS LIBERABIT (THE TRUTH WILL SET YOU FREE)

As a parallel to Aristotle's day, we now have observational truth that the world of chronic-illness risk management is not flat. There is no need to confine ourselves to the myths and methods of days past. Creating viable and reliable private-sector extended-care insurance solutions is important work; clearly, we have a great deal of opportunity ahead of us. ■

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ENDNOTES

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2 Ibid.

3 Ernst & Young. 2012. Voice of the Customer: Time for Insurers to Rethink Their Relationships. *Global Consumer Insurance Survey 2012. https://thecustomerblog.files.wordpress.com/2012/02/ey-global-report-global-consumer-insurance-survey-2012.pdf.*

4 Deloitte. 2015. Life Insurance Consumer Purchase Behavior: Tailoring Consumer Engagement for Today's Middle Market. September. *https://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-cons-life-insurance-consumer-study.pdf.*

5 Society of Actuaries. 2016. Middle-Market Life Insurance. Findings From Industry Thought Leaders. November. *https://www.soa.org/globalassets/assets/files/research/projects/research-middle-market-report.pdf.*

6 Facts of Life 2017 from LIMRA

7 Society of Actuaries. Middle-Market Life Insurance.