Session 63PD, Long Term Care Think Tank Product Innovation Research Project

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Long-Term Care Innovations:
An SOA Study Exploring New Long-Term Care Financing Options

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SESSION PARTICIPANTS

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➢ Cindy Malone, Maddock Douglas
The Long Term Care Financing Challenge: Problems Outpacing Solutions

➢ Problems too complex for old solutions
➢ Private LTC insurance market in precipitous decline
  ➢ Many carriers have found business too risky
  ➢ Traditional single-purpose product sales stagnant
  ➢ Combo products growing in appeal for both carriers and consumers
  ➢ But premiums out of reach for middle-income
➢ 7 million policies in-force: how to manage?
➢ As population continues to age, need for innovation and new solutions becomes critical
Designing Innovative Solutions

**DESIGN THINKING:**

A *human-centered* approach to innovation that involves:

1. The needs of people
2. The possibilities of technology to meet those needs
3. An experience that delivers a solution
Think Tank Background and Process

➢ History of the Society of Actuaries (SOA) LTC Think Tank

➢ October 2015 Gathering

➢ Shift from “Think Tank” to “Do Tank”

➢ SOA’s Research Expansion Pool (“REX”)

➢ Results of Consumer Research
A single insurance policy that starts as term life insurance during your younger, prime income-earning years and then switches to a long-term care insurance policy when you are older.
A tax-beneficial 401(k) type of retirement account that has expanded contribution limits, allows flexible usage of account funds, and builds in insurance elements for long-term care.
Introducing LifeStage Protection

Life Insurance That Transforms Into Long-Term Care Insurance

You know life insurance is important as it financially protects your family should something happen to you during your prime income-earning years. And you know that if you need long-term care later in life this could deplete your retirement savings. But long-term care insurance is expensive and it doesn’t seem like something you will need until you get much older. Wouldn’t it be great if there was an affordable way to have the financial protection you need now and in the future?

Introducing LifeStage Protection — An insurance policy that starts as life insurance during your prime income-earning years and then switches to long-term care insurance during your later years. This provides you and your family with the financial protection that you need when you need it most. And it’s affordable because locking in the long-term care coverage at a younger age (e.g., age 45) means the amount you end up paying for the insurance is much lower (as much as 50%) than if you waited until later in life (e.g., age 65) to apply.

To enroll, contact your employee benefits administrator or go to your employee benefits website. If you are self-employed or your employer does not offer it, you can enroll at www.lifestageprotection.com. Select a coverage level (e.g., $100,000, $150,000, $250,000, $300,000 or more) and select your transition age (the age you want the insurance to switch from life to long-term care insurance). Once you are a policy-holder, your life insurance coverage begins. When you reach your selected transition age, the life insurance ends and the long-term care coverage begins. Then if you require long-term care (e.g., in-home care, assisted living, nursing home care) your expenses will be covered up to the maximum amount based on the coverage level you selected (e.g., $100,000).

Prices vary depending on the coverage level chosen, age and gender. Your monthly rate stays the same the whole time you are a LifeStage policy holder.

LifeStage Protection – Transforming Insurance

To apply contact your employee benefits department or go to www.lifestageprotection.com.

Select your coverage level and transition age.

The life insurance financially protects your family should something happen to you during your prime income-earning years.

Starting at your selected transition age, the long-term care insurance covers your expenses up to your chosen coverage level.
Introducing Retirement Plus

Retirement Savings + Long-Term Care Insurance... All With Great Tax Benefits

You know that saving for retirement is important for your future financial security. You also know that long-term care is something you might need down the road. But writing a check for long-term care insurance right now doesn’t seem like the smartest use of your money. Wouldn’t it be nice if there was a way to prepare for retirement and be covered for long-term care at the same time?

Introducing Retirement Plus — A flexible retirement plan like a 401(k)/IRA but with expanded contributions and long-term care insurance built right in. This allows you to simultaneously invest for retirement and be covered for long-term care should you need it. In the event you need long-term care, the insurance component kicks in and pays for long-term care expenses.

Enroll and make your investment selections just like you would for a typical retirement account by indicating how much money/what percentage of your income you want to put into Retirement Plus and select the level of long-term care insurance you would like (e.g., $100,000, $150,000, $200,000). Based on your selections, your Retirement Plus account will be funded automatically from either your paycheck or your bank account. The cost of the long-term care insurance will be deducted from your Retirement Plus account balance.

Once you reach retirement age, the funds can be used for whatever you want (living expenses, home repairs, a new car, vacations, etc.). Just like a 401(K) or an IRA, you pay taxes at the time you use the money. In the event you need long-term care, your account funds can be used to cover those expenses. If the money is spent on long-term care you pay no taxes on it. If you spend your entire account balance, the insurance kicks in and pays your long-term care bills up to the maximum benefit amount selected during enrollment.

Retirement Plus — Retirement + Long Term Care

Enroll and make your selections.

Once you retire you can use the funds however you want.

If you need long-term care, you can use your funds to pay the bills, tax-free.

The insurance pays the bills up to the maximum based on your selections.
Sizing and Understanding the Potential Opportunity
Critical Need for Middle Market Products

➢ Generating ideas from Think Tank was important starting point
➢ But just because we like an idea, doesn’t mean consumers will embrace it
➢ We’ve learned the hard way...if you build it, they may not come
Importance of Market Testing

➢ Important to success = use a rigorous research framework to develop and refine product, size demand, and identify market segments and messages
➢ Use both qualitative and quantitative research; both provide important and different types of insight
➢ Test real product features with real prices in as close to real distribution style as possible
➢ Understand that actual behavior will differ from expressed behavior in a research setting
➢ Use sound methodologies for translating “interest” to “purchase”
Sample Demand Analysis

- 1,816 consumers surveyed
- 880 meet income and health screen
- 257 potential buyers (14%)
Sample Demand Analysis (continued)

- 257 willing to buy and eligible
- Assign probabilities of being buyer from other research by matching on key traits
- 123 out of 1,816 starting population = 6.8% participation

Potential Buyers

Match “Buyer” Profile

Predicted to buy
Research Methodology

➢ Qualitative phase preceded the concept testing
➢ Quantitative 20 minute online survey fielded September/October 2017

➢ Total Sample: N=800 financial decision makers for household
  ➢ Ages 35-55
  ➢ Not employed in a competitive industry
  ➢ At least a high school graduate
  ➢ Employed and offered benefits (if not self-employed)
  ➢ Household income (HHI) between $50,000 and $499,999 and max 10% of sample with < $100K investable assets
  ➢ Describe current health as at least fair

➢ Quotas in place to ensure an even split by age and income
➢ After qualifying, respondents were randomly selected to evaluate one of two concepts
➢ During analysis, data weighted by gender and income to reflect population and qualification incidence
Definition of Long-Term Care

➢ Early in the questionnaire, respondents were asked about their experiences with and perceptions of needs related to “help taking care of yourself.” The phrase “long-term care” was not used.

➢ Immediately prior to the concept evaluation, a definition of long-term care was provided to all respondents.
Expectations for Future Care Needs

➢ More than half of respondents believe they are more likely than not to need long-term care services in the future.

### Likelihood of Ever Needing

<table>
<thead>
<tr>
<th>Service</th>
<th>Very Likely (More than 74% chance)</th>
<th>Likely (50%-74% chance)</th>
<th>Not Very Likely (25%-49% chance)</th>
<th>Not At All Likely (less than 25% chance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nursing Home</td>
<td>9%</td>
<td>35%</td>
<td>39%</td>
<td>17%</td>
</tr>
<tr>
<td>Assisted Living Facility</td>
<td>14%</td>
<td>44%</td>
<td>30%</td>
<td>12%</td>
</tr>
<tr>
<td>In-Home Care</td>
<td>17%</td>
<td>44%</td>
<td>27%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Many consumers don’t understand that they will have to pay out-of-pocket if they have long-term care needs.

<table>
<thead>
<tr>
<th>How Expect to Pay For Needed Care (Average % Sourced From)</th>
</tr>
</thead>
<tbody>
<tr>
<td>My own income, assets, and savings</td>
</tr>
<tr>
<td>Health insurance or HMO/health plan</td>
</tr>
<tr>
<td>Medicare</td>
</tr>
<tr>
<td>Medicaid</td>
</tr>
<tr>
<td>MEDIGAP or Medicare supplemental insurance coverage</td>
</tr>
<tr>
<td>Family financial help</td>
</tr>
<tr>
<td>Reverse mortgage or home equity line of credit</td>
</tr>
</tbody>
</table>
Q40. Imagine that you decided to purchase an insurance policy that specifically pays for long-term care services when and if you need them in the future. If you had such a policy, about how much of your future long-term care costs do you expect that policy would be likely to cover?

Base = Total Respondents (n=800)

**Expected % of Costs Covered**

- All of the costs (100%): 14%
- Nearly all of the costs (80% to 99%): 32%
- Most of the costs (61% to 79%): 33%
- About half of the costs (40% to 60%): 16%
- Some of the costs (20% to 39%): 5%
- Very little of the costs (19% or less): 2%

46%

**Average: 74%**
Key Takeaways from the Consumer Research
High-Level Impressions of the Concepts

➢ Both concepts are well received and consumers can envision a need for them.
   ➢ The majority find both concepts to be easy to understand and believable.
   ➢ Many also feel both products bring something new to category.
➢ Regardless of current age, consumers are more likely to see either product as filling a future need than a current need.
➢ Price is a likely barrier for many as “interest in investigating further” drops sharply after exposure to price.
   ➢ Of note, purchase intent is higher among those who chose a larger benefit level. Those who see the benefits of the products may be willing to pay more to get the coverage they desire.
Key Takeaways for LifeStage Protection

➢ Initial impressions are positive and this concept fills a need for consumers in the future, driven by the combo product design that transitions as they get older.

➢ However, there is some concern about not choosing the right transition age.

➢ The option to pay more to get a post-transition death benefit or to use LTCI benefits prior to the transition age is likely to increase interest.
Key Takeaways for Retirement Plus

➢ Consumers have a positive initial reaction to this concept and its flexibility to use saved funds for any desired purpose
  ➢ Highlighting the benefits of this product compared to other separate savings and insurance options will be important to converting hesitant or skeptical consumers
  ➢ The option to have access to the insurance benefit early, for an added cost, is likely to increase interest
Summary of Key Diagnostics (Priced)

Overall Impression
- Life Stage: 12% (Top Box), 25% (Middle Box), 29% (Bottom Box)
- Ret Plus: 17% (Top Box), 29% (Middle Box), 59% (Bottom Box)

Fills a Need Today
- Life Stage: 12% (Top Box), 25% (Middle Box), 14% (Bottom Box)
- Ret Plus: 16% (Top Box), 27% (Middle Box), 11% (Bottom Box)

Fills a Need In Future
- Life Stage: 24% (Top Box), 29% (Middle Box), 15% (Bottom Box)
- Ret Plus: 27% (Top Box), 21% (Middle Box), 10% (Bottom Box)

Clarity (Easy to Understand)
- Life Stage: 25% (Top Box), 18% (Middle Box), 11% (Bottom Box)
- Ret Plus: 31% (Top Box), 21% (Middle Box), 12% (Bottom Box)

Uniqueness
- Life Stage: 21% (Top Box), 59% (Middle Box), 11% (Bottom Box)
- Ret Plus: 25% (Top Box), 58% (Middle Box), 12% (Bottom Box)

Believability
- Life Stage: 18% (Top Box), 24% (Middle Box), 13% (Bottom Box)
- Ret Plus: 22% (Top Box), 23% (Middle Box), 14% (Bottom Box)
Likes & Dislikes of LifeStage Protection

Top likes focus on the transition/combination product and security/protection.

What Do Consumers Like About It?

- “Flexibility in changing needs through different life stages.”
  [Male, Age 35]
- “I like the combination of life insurance transitioning to long term care insurance.”
  [Female, Age 39]
- “It protects my family during my income years if something happens to me, which later also covers me long-term.”
  [Male, Age 49]
- “Good that it is still useful after I no longer need life insurance.”
  [Female, Age 40]
- “I really like that this insurance starts as life insurance and then at a targeted age switches to a long term care insurance.”
  [Male, Age 48]
- “I like that the insurance serves two purposes in its lifetime.”
  [Male, Age 39]
- “It is a good idea, considering how the coverage changes according to need. It’s also nice that the amount you pay remains the same for the duration of the policy.”
  [Male, Age 42]
- “I like the security and well-being this product provides.”
  [Male, Age 42]

What Do Consumers Dislike About It?

- “Cost and concern you or your loved ones lose out if you don’t need long term care.”
  [Female, Age 49]
- “I am afraid it would not be worth what I had to pay for it.”
  [Female, Age 46]
- “It is all a gamble...would be better if it could stay life insurance until and if it was needed vs making a choice to convert it.”
  [Female, Age 50]
- “Not enough information to really make a decision. It sounds reasonable, but who knows and I don’t trust insurance companies.”
  [Male, Age 36]
- “I guess I just don’t understand it that well. What if you select an age now, but at that age you don’t need that kind of care.”
  [Female, Age 53]
- “You have to guess when you're going to need to make the switch.”
  [Male, Age 56]
- “It protects my family during my income years if something happens to me, which later also covers me long-term.”
  [Male, Age 49]
- “If I’m above 45 I’m not sure it will work for me.”
  [Male, Age 54]
- “What happens if you don’t need long term care.”
  [Male, Age 37]

Base = Evaluated LifeStage Protection (n=402)
Q19. Please explain what you like most about this product./Q20. Please explain what you dislike most about this product.
Age of Desired Transition

➢ A majority would set the transition age in the 61-70 range, primarily based on how long they expect to stay healthy and when they plan to retire.

➢ There was some concern about not knowing when to set the age and fear of picking the wrong age.

Base = Evaluated LifeStage Protection (n=402)

Q34. At which age would you prefer the product transition from a life insurance policy to long-term care coverage?/Q35. Why did you choose that age?
# Likes & Dislikes of Retirement Plus

The ability to use the money saved in various ways, as well as the tax benefits, are commonly mentioned likes.

<table>
<thead>
<tr>
<th>Likes &amp; Dislikes of Retirement Plus</th>
<th>What Do Consumers Like About It?</th>
<th>What Do Consumers Dislike About It?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Likes</strong></td>
<td>“Flexibility to spend funds on living expenses or long term care.” [Male, Age 35]</td>
<td>“I don't know that I would want the two things combined.” [Male, Age 52]</td>
</tr>
<tr>
<td></td>
<td>“It would ensure that I could use the money for the expense as they come up and gives me more coverage and peace of mind.” [Male, Age 46]</td>
<td>“Do you need to use up all your personal money before the insurance kicks in; I don't completely understand the product.” [Female, Age 50]</td>
</tr>
<tr>
<td></td>
<td>“Flexible use of funds, can be used for long term care tax free.” [Female, Age 46]</td>
<td>“Not sure if it’s a better investment than doing it separately.” [Male, Age 44]</td>
</tr>
<tr>
<td></td>
<td>“That the funds can be used for anything and the tax advantages if you do use it for healthcare.” [Male, Age 44]</td>
<td>“Expensive for retirees.” [Male, Age 54]</td>
</tr>
<tr>
<td></td>
<td>“It gives you options, if you don’t need it for long term care you can use it for other things. It would provide peace of mind, and medical stuff would be tax free.” [Female, Age 46]</td>
<td>“I'm not sure if this product is entirely necessary for me.” [Male, Age 36]</td>
</tr>
<tr>
<td></td>
<td>“Retirement savings with a plan to help cover long term medical care needs would help protect retirement income.” [Female, Age 50]</td>
<td>“Not clear what type of product this is. Need to know more about it, especially fees and costs.” [Female, Age 41]</td>
</tr>
<tr>
<td></td>
<td>“I like that this product will help me to plan for what I may need later in life; it works like a typical IRA, but with the benefit of insurance for long term care. I like that the money is not taxable if used for long term care.” [Female, Age 44]</td>
<td>“Don’t understand all the costs associated.” [Female, Age 52]</td>
</tr>
</tbody>
</table>

Base = Evaluated Retirement Plus (n=398)

Q19. Please explain what you like most about this product./Q20. Please explain what you dislike most about this product.
Real value is perceived in both concepts (45% top 2 box score), but after exposure to price, interest in investigating further drops.

**Would you be willing to investigate further?**

### LifeStage Protection

<table>
<thead>
<tr>
<th></th>
<th>Un-Priced</th>
<th>Priced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 2 Box Likely</td>
<td>49%</td>
<td>38%</td>
</tr>
<tr>
<td>Middle Box</td>
<td>31%</td>
<td>35%</td>
</tr>
<tr>
<td>Bottom 2 Box Not Likely</td>
<td>20%</td>
<td>26%</td>
</tr>
</tbody>
</table>

### Retirement Plus

<table>
<thead>
<tr>
<th></th>
<th>Un-Priced</th>
<th>Priced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 2 Box Likely</td>
<td>48%</td>
<td>38%</td>
</tr>
<tr>
<td>Middle Box</td>
<td>34%</td>
<td>38%</td>
</tr>
<tr>
<td>Bottom 2 Box Not Likely</td>
<td>19%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Base = Evaluated Concept  
Q25. How likely would you be to investigate this product further?/Q28. How likely would you be to investigate this product further?
Desired Purchase Method (Among Acceptors)

About 1/3 of respondents would be most interested in purchasing through their employer...

First Choice in How To Purchase

- Through my employer: 34% (n=97) - A
- Online (directly from an insurance company website): 38% (n=95) - B
- Through an insurance agent: 27% (n=95) - A
- From a membership or affinity group to which I belong: 11% (n=95)
- Telephone (directly from an insurance company representative): 7% (n=95)

Q32. Which of the following would be your first choice for how you would like to buy this product?

Base = Evaluated Concept and Acceptor / Base = Evaluated Concept and Acceptor and First Choice NOT to Purchase Through Employer (and Not Self-Employed)
Concept Market Sizing

➢ There are roughly 53 million consumers in the relevant Project Universe.

Total U.S. Consumers 18+: 249,490,000

U.S. Consumers 35-55: 87,450,000

U.S. Consumers 35-55 with HHI $50K-$499K: 60,870,000

LTC Think Tank Project Universe: 53,200,000
Criteria: At least high school graduate, offered benefits from employer (if not self-employed), at least share in the responsibility for HH financial decision making, describe current health as at least fair health

21% of Consumer Population 18+

Age 35-45, HHI $50K - < $125K
17,020,000

Age 35-45, HHI $125K - < $500K
9,900,000

Age 46-55, HHI $50K - < $125K
15,750,000

Age 46-55, HHI $125K - < $500K
10,530,000

Sources: U.S. Census 2016, DQYDJ.com, LTC Think Tank Concept Study 2017
Concept Test Purchase Intent (Adjusted Trial)

- Respondents were asked about their purchase intent using an 11-point scale.
- Self-reported purchase intent was then adjusted to reflect real-world behavior — based on more than 20 years of normative forecasting data.

- 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)
Purchase Intent (Self-Reported & Adjusted)

➢ Both concepts posted strong self-reported purchase interest.

LifeStage Protection

Self-Reported Purchase Intent: 49%
Adjusted Trial: 21%

Retirement Plus

Self-Reported Purchase Intent: 48%
Adjusted Trial: 20%

Base = Evaluated LifeStage Protection (n=402) / Base = Evaluated Retirement Plus (n=398)
Q30. How likely would you be to purchase this product within the next two years?
Calculating Projected Policyholders

<table>
<thead>
<tr>
<th>LifeStage Protection</th>
<th>Retirement Plus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Universe</td>
<td>53,200,000</td>
</tr>
<tr>
<td>x Access (100%)</td>
<td>100%</td>
</tr>
<tr>
<td>x Year 1 Awareness (0.25%)</td>
<td>0.25%</td>
</tr>
<tr>
<td>x Adjusted Trial (20.6%)</td>
<td>20.2%</td>
</tr>
<tr>
<td>x 50% who will buy in Year 1</td>
<td>0.5%</td>
</tr>
<tr>
<td>= Year 2 Retention Rate</td>
<td>95%</td>
</tr>
<tr>
<td>(% of policyholders retained from year 1)</td>
<td></td>
</tr>
<tr>
<td>= Policyholders retained from Year 1</td>
<td></td>
</tr>
<tr>
<td>+ New Policyholders (50% of projected buyers made aware in Year 1)</td>
<td></td>
</tr>
<tr>
<td>+ New Policyholders (50% of projected buyers made aware in Year 2)</td>
<td></td>
</tr>
<tr>
<td>= Year 2 Projected Total Policyholders</td>
<td></td>
</tr>
</tbody>
</table>

Assumptions based on conservative estimates determined in conjunction with the Think Tank Core Team.
Total Projected Policyholders – Years 1 to 5

**LIFESTAGE PROTECTION (THOUSANDS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>LIFESTAGE PROTECTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>13.7</td>
</tr>
<tr>
<td>Year 2</td>
<td>53.9</td>
</tr>
<tr>
<td>Year 3</td>
<td>119.3</td>
</tr>
<tr>
<td>Year 4</td>
<td>208.3</td>
</tr>
<tr>
<td>Year 5</td>
<td>319.8</td>
</tr>
</tbody>
</table>

**RETIREMENT PLUS (THOUSANDS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>RETIREMENT PLUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>13.4</td>
</tr>
<tr>
<td>Year 2</td>
<td>53.0</td>
</tr>
<tr>
<td>Year 3</td>
<td>117.2</td>
</tr>
<tr>
<td>Year 4</td>
<td>204.8</td>
</tr>
<tr>
<td>Year 5</td>
<td>314.3</td>
</tr>
</tbody>
</table>

**Access**
- Year 1: 100%
- Year 2: 100%
- Year 3: 100%
- Year 4: 100%
- Year 5: 100%

**Awareness**
- Year 1: 0.25%
- Year 2: 0.5%
- Year 3: 0.75%
- Year 4: 1.0%
- Year 5: 1.25%

**Retention**
- Year 1: n/a
- Year 2: 95%
- Year 3: 95%
- Year 4: 95%
- Year 5: 95%
Calculating Projected Premium Revenue

<table>
<thead>
<tr>
<th>LifeStage Protection</th>
<th>Retirement Plus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year 1 Policyholders</strong></td>
<td><strong>13,700</strong></td>
</tr>
<tr>
<td>x % Who Select Each Benefit Level</td>
<td></td>
</tr>
<tr>
<td>x Median Monthly Premium for Selected Benefit Level</td>
<td></td>
</tr>
<tr>
<td>x 6 (average months of revenue per new policyholder)</td>
<td></td>
</tr>
<tr>
<td>=</td>
<td><strong>Total Premium Revenue in Year 1</strong></td>
</tr>
<tr>
<td><strong>Year 2 New Policyholders</strong></td>
<td><strong>40,900</strong></td>
</tr>
<tr>
<td>x % Who Select Each Benefit Level</td>
<td></td>
</tr>
<tr>
<td>x Median Monthly Premium for Selected Benefit Level</td>
<td></td>
</tr>
<tr>
<td>x 6 (average months of revenue per new policyholder)</td>
<td></td>
</tr>
<tr>
<td>+ Renewing Policyholder Revenue</td>
<td></td>
</tr>
<tr>
<td>Total Monthly Premium Revenue x 12 x Renewal Rate</td>
<td></td>
</tr>
<tr>
<td>=</td>
<td><strong>Total Premium Revenue in Year 2</strong></td>
</tr>
</tbody>
</table>

Assumptions based on conservative estimates determined in conjunction with the Think Tank Core Team.
Total Projected Premium Revenue – Years 1 to 5

**LifeStage Protection**

LIFESTAGE PROTECTION (MILLIONS)

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9.2</td>
<td>$45.2</td>
<td>$115.2</td>
<td>$217.4</td>
<td>$350.0</td>
</tr>
</tbody>
</table>

**Retirement Plus**

RETIREMENT PLUS (MILLIONS)

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.8</td>
<td>$9.2</td>
<td>$19.7</td>
<td>$36.5</td>
<td>$76.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Awareness</td>
<td>0.25%</td>
<td>0.5%</td>
<td>0.75%</td>
<td>1.0%</td>
<td>1.25%</td>
</tr>
<tr>
<td>Retention</td>
<td>n/a</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
</tr>
</tbody>
</table>
Projected Implications

➢ Projections are highly dependent on assumptions (e.g., access, awareness). A more aggressive awareness-building campaign would dramatically increase projections.

➢ At the projection level described in today’s presentation, consumer demand for both LifeStage Protection and Retirement Plus would likely surpass that for traditional LTC product sales within 3 years.

➢ Value created is well beyond premium revenue for industry. There are also implications for significant government savings based on projected impacts to tax revenue and Medicaid spending.
Reflecting on the Market Research
Identify Market Segments & Attitude Drivers

➢ How similar to other LTC buyer vs. non-buyer profiles are these findings?
➢ From over 25 years of analysis, have strong patterns of demographics and attitudes associated with product purchase and non-purchase
➢ Look at LifeStage and Retirement Plus data against that framework
➢ Examine Product Acceptors vs. Rejecters
Product Acceptors

➢ Those who said they are 80% to 100% likely to buy within the next two years – after knowing price.

➢ Following traits emerged as statistically significant when compared to product rejecters – those in the lowest categories with regard to intent to buy (20% chance or less)
Attitudes of “Acceptors”

➢ Have LTC experience with family/friends
➢ Perceive higher than average risk of needing LTC
➢ Worry that changing health or rising premiums might make it harder to obtain LTC coverage later on
➢ Strongly agree that “LTC insurance that pays for some LTC is better than none.”
➢ Strongly agree with variety of attitudes about value of planning in advance for LTC needs:
  ➢ Protect family income and savings
  ➢ Better care choices
  ➢ Avoid being burden
  ➢ Enhance opportunity to receive care at home
Attitudes of “Acceptors” (Continued)

➢ Feels they have enough information to make a purchase decision
➢ Believe it is a good idea to have LTC insurance right now
➢ Feel LTCI is affordable right now
➢ Know someone who recently needed LTC
➢ Less likely to share decision-making with family member
Conclusion

➢ Attitudes typically emerge as more significant than demographics
➢ Prior research on 55+ population vs. our study group ages 35-55
➢ Despite younger ages, strong similar attitudes driving purchase interest
➢ Analysis done before adjusted trial numbers and small sample sizes
➢ Raising/reinforcing LTC awareness important component of product interest
Tax and Medicaid Impact Modeling
Potential Impacts to Tax Revenue

➢ Three scenarios modeled
  ➢ Current (Less Favorable): Premiums / contributions not eligible for deduction.
  ➢ Favorable: LTC Portion of LifeStage premiums eligible for deduction. Contributions to Retirement Plus made on a pre-tax basis
  ➢ Preferred: Entire LifeStage premiums eligible for deduction. Retirement Plus similar to Favorable scenario, but distributions for LTC needs would not be taxed.

➢ In all scenarios, the two concepts were modeled assuming new or additional premiums or contributions – not a reallocation from other products/investments.
### Lost Federal Tax Revenue Under the Three Scenarios

<table>
<thead>
<tr>
<th></th>
<th>LifeStage Protection</th>
<th>Retirement Plus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less Favorable Tax Treatment</td>
<td>Favorable Treatment</td>
</tr>
<tr>
<td>Years 1–10</td>
<td>0.0</td>
<td>21.7</td>
</tr>
<tr>
<td>Years 11–20</td>
<td>0.0</td>
<td>53.6</td>
</tr>
<tr>
<td>Years 21–30</td>
<td>0.0</td>
<td>89.3</td>
</tr>
<tr>
<td>50-Year PV*</td>
<td>0.0</td>
<td>146.9</td>
</tr>
<tr>
<td>% Change</td>
<td>0.0%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

*All present values (PV) are calculated using a discount rate of 3.5%, which is consistent with current statutory valuation interest rates.
Modeling assumed that projected reductions in Medicaid expenditures would be split evenly between the federal and state governments.

<table>
<thead>
<tr>
<th>Impact on Federal Government Spending ($ Millions)</th>
<th>LifeStage Protection</th>
<th>Retirement Plus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less Favorable Tax Treatment</td>
<td>Favorable Treatment</td>
</tr>
<tr>
<td>Years 1–10</td>
<td>0.0</td>
<td>21.7</td>
</tr>
<tr>
<td>Years 11–20</td>
<td>−2.2</td>
<td>51.4</td>
</tr>
<tr>
<td>Years 21–30</td>
<td>−77.6</td>
<td>11.7</td>
</tr>
<tr>
<td>50-Year PV*</td>
<td>−367.7</td>
<td>−220.8</td>
</tr>
<tr>
<td>% Change</td>
<td>−28.8%</td>
<td>−17.3%</td>
</tr>
</tbody>
</table>

*All present values (PV) are calculated using a discount rate of 3.5%, which is consistent with current statutory valuation interest rates.
Potential Reduction in State Medicaid Expenditures

Modeling assumed that projected reductions in Medicaid expenditures would be split evenly between the federal and state governments.

<table>
<thead>
<tr>
<th>Impact on State Government Spending ($ Millions)</th>
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<tr>
<td>LifeStage Protection</td>
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<tr>
<td>50-Year PV*</td>
</tr>
<tr>
<td>% Change</td>
</tr>
</tbody>
</table>

*All present values (PV) are calculated using a discount rate of 3.5%, which is consistent with current statutory valuation interest rates.
Where do we go from here?
Moving From Concept to Product

➢ Publicizing the initiative- Media Plan
  ➢ Range of targets
    ➢ Industry
    ➢ Consumers
    ➢ Regulators
    ➢ Other stakeholders
  ➢ Variety of messages

➢ Socializing the concepts and process
  ➢ ILTCI
  ➢ Aging in America Conference (ASA)
  ➢ SOA Health conference
  ➢ Supplemental Health Conference
  ➢ Others
Moving From Concept to Product

➢ Outreach to other stakeholders
  ➢ Regulatory
    ➢ Interstate Compact
    ➢ NAIC
  ➢ Interested State Insurance commissioners
  ➢ Other state departments (i.e., Medicaid directors, DHS)
  ➢ Think tanks and public policy organizations

➢ Identify and address questions and issues (i.e., regulatory, tax treatment, operational considerations)
Moving From Concept to Product

➢ Explore partnering opportunities
  ➢ Existing carriers and distribution entities
  ➢ States
  ➢ Public policy think tanks – e.g., BPC; Leading Age;

➢ Develop and evaluate “pilots” e.g., Minnesota
  ➢ Opportunities to test and finalize plan designs
  ➢ Test potential operational approaches
    ➢ E.g., employer group market
    ➢ Assuring portability of pre-paid premiums

➢ Revisit concept with original Think Tank participants via interactive webcast
SESSION PARTICIPANTS

➢ John O’Leary
  ➢ john@olearymarketingassociates.com

➢ Eileen J. Tell
  ➢ eileenjtell@gmail.com

➢ Cindy Malone
  ➢ Cindy.M@maddockdouglas.com
Introducing LifeStage Protection™

You know life insurance is important as it financially protects your family should something happen to you during your prime income-earning years. And you know that if you need long-term care later in life this could deplete your retirement savings. But long-term care insurance is expensive and it doesn't seem like something you will need until you get much older. Wouldn't it be great if there was an affordable way to have the financial protection you need now and in the future?

Introducing LifeStage Protection — An insurance policy that starts as life insurance during your prime income-earning years and then switches to long-term care insurance during your later years. This provides you and your family with the financial protection that you need when you need it most. And it’s affordable because locking in the long-term care coverage at a younger age (e.g., age 45) means the amount you end up paying for the insurance is much lower (as much as 50%) than if you waited until later in life (e.g., age 65) to apply.

To enroll, contact your employee benefits administrator or go to your employee benefits website. If you are self-employed or your employer does not offer it, you can enroll at www.lifestageprotection.com. Select a coverage level (e.g., $100,000, $150,000, $200,000, $300,000 or more) and select your transition age (the age you want the insurance to switch from life to long-term care insurance). Once you are a policy-holder, your life insurance coverage begins. When you reach your selected transition age, the life insurance ends and the long-term care coverage begins. Then if you require long-term care (e.g., in-home care, assisted living, nursing home care) your expenses will be covered up to the maximum amount based on the coverage level you selected (e.g., $100,000).

Prices vary depending on the coverage level chosen, age and gender. Your monthly rate stays the same the whole time you are a LifeStage policy holder.

LifeStage Protection – Transforming Insurance

To apply contact your employee benefits department or go to www.lifestageprotection.com.

Select your coverage level and transition age.

The life insurance financially protects your family should something happen to you during your prime income-earning years.

Starting at your selected transition age, the long-term care insurance covers your expenses up to your chosen coverage level.
Introducing Retirement Plus™

Retirement Savings + Long-Term Care Insurance… All With Great Tax Benefits

You know that saving for retirement is important for your future financial security. You also know that long-term care is something you might need down the road. But writing a check for long-term care insurance right now doesn't seem like the smartest use of your money. Wouldn’t it be nice if there was a way to prepare for retirement and be covered for long-term care at the same time?

**Introducing Retirement Plus** — A flexible retirement plan like a 401(k)/IRA but with expanded contributions and long-term care insurance built right in. This allows you to simultaneously invest for retirement and be covered for long-term care should you need it. In the event you need long-term care, the insurance component kicks in and pays for long-term care expenses.

Enroll and make your investment selections just like you would for a typical retirement account by indicating how much money/what percentage of your income you want to put into Retirement Plus and select the level of long-term care insurance you would like (e.g., $100,000, $150,000, $200,000). Based on your selections, your Retirement Plus account will be funded automatically from either your paycheck or your bank account. The cost of the long-term care insurance will be deducted from your Retirement Plus account balance.

Once you reach retirement age, the funds can be used for whatever you want (living expenses, home repairs, a new car, vacations, etc.). Just like a 401(K) or an IRA, you pay taxes at the time you use the money. In the event you need long-term care, your account funds can be used to cover those expenses. If the money is spent on long-term care you pay no taxes on it. If you spend your entire account balance, the insurance kicks in and pays your long-term care bills up to the maximum benefit amount selected during enrollment.

**Retirement Plus – Retirement + Long Term Care**

Enroll and make your selections. Once you retire you can use the funds however you want. If you need long-term care, you can use your funds to pay the bills, tax-free. The insurance pays the bills up to the maximum based on your selections.