

## Handling Inflation Coverage in the Long-Term Care Insurance Sale

As the instigator for the 70% takeup rate for compound inflation in the initial offering for the Federal LTCI Program, I wish the 5% compound inflation benefit for life for everyone. Having said that, I realize that the premium for the 5% compound inflation rider has become more expensive than ever in some of the newer product offerings. For the affluent client, no problem. But what about the masses that we're all trying so hard to figure out a way to get to? What is the best way to help them afford long-term care insurance and yet secure a meaningful benefit?

The typical MO with insurance companies to avoid a rate increase for existing policyholders has been to introduce a new product with higher premium. Since most major companies have already done that, the challenge now is to keep the product affordable, and the current strategy seems to be to provide alternatives to the inflation benefit in order to lower the premium; e.g. base it on CPI or other compound percentages such as 2, 3, or 4%. Another option is to let the benefit grow at 5% compound til it doubles in 15 years then stops growing. Another option is simple inflation vs. compound. My least favorite alternative is Future Purchase Offers (FPO) which is also referred to Guaranteed Purchase Offers (GPO) which allows policyholders to buy more coverage under certain conditions priced at attained age as they get older.

All of my presentation material for LTCI uses the projection that the cost of care will triple in 20 years, which is actually a 5.8% growth rate. I saw that figure in a General Accounting Office report published in 1991, and it works out as the projected growth rate in an annual article written by a team of analysts with the Center for Medicare and Medicaid (CMS). This year's reference is:

Borger, et al. "Health Spending Projections Through 2015: Changes on the Horizon", *Health Affairs - Web Exclusive*, p. w62, 2/22/06 (6% projected growth rate for long-term care for 1993-2015) [www.healthaffairs.org](http://www.healthaffairs.org)

Going back to 2002, the projected growth rates are:

2006 Update: 6.09%  
2005 Update: 5.875%  
2004 - 5.770%  
2003 - 5.830%  
2002 - 5.79%

An even better measure of inflation growth is to measure the growth in your local area. There's a wonderful free tool on the internet that my operations director introduced me to several years ago at [www.cpadvantage.com/onlinefinancialcalculators/cagrcalculation.aspx?LNC= 4 2](http://www.cpadvantage.com/onlinefinancialcalculators/cagrcalculation.aspx?LNC=42)

You can put in a first value, a last value, and the number of years you want to see, and presto - it will show you the growth rate!

For example, a semi-private nursing home room in Chattanooga, TN averaged \$56 a day in 1988, the year I sold my first long-term care insurance policy. Today it averages about \$150 per day. Here is the result of that calculation:

First Value: 56.00

Last Value: 150.00

Number of Years: 18.00

The compounded annual growth rate is: 5.626%....a little under the 5.8% but still more than 5% compound.

However you slice it, inflation marches on for LTC at 5% or maybe a little more annually. Rather than just skip the inflation benefit for the middle American who is struggling to afford long-term care insurance, producers must think outside the box in product design to ensure that clients have a meaningful benefit at claim time.

So I've been thinking hard. Is there more than one way to skin a cat on this issue?

Possibly.

Whichever method you use to cover inflation, try to do these four things:

- 1) Pick an end point based on the age of the prospect; e.g. 35 years for a 50 year old or 25 years for a 60 year old – you get the picture.
- 2) Figure out what the cost is expected to be by that end point by using the local factor for your area – if you don't know, interview some providers and ask what the cost of care was 15 years ago, then figure the growth rate vs. today's cost in your area using the above internet calculator.
- 3) Ask what percentage of the cost the prospect would like the LTCI benefit to cover (half, 2/3, 80%, full coverage)
- 4) Experiment by varying the initial daily or monthly benefit that will produce the desired result at the end point when combined with the different types of inflation riders in the products you are selling.

For example, a \$3900 monthly benefit will pay about 80% of a \$5,000 monthly local cost so using that as a base, it's important to realize that with 5% compound inflation, it will double every 15 years and will take 30 years to reach \$16,000. Perhaps starting them off with \$9,000 a month FPO and advising them to accept the options every year or every other year while they are still young may work. If they do accept the offers, at some point they will become unaffordable but they will hit the \$15000 several years sooner than with the \$3900 5% compound plan. Or maybe \$6000 with simple inflation might do the trick.

Are these the best scenarios? No, 5% compound for life is the best. But if you can't sell that, it's better to do one of these "outside the box" ideas than just \$3900 (in my above example) with either no inflation or FPO. It's also important to look at the client's situation more holistically. Is there enough income to be a factor in the payment for care? Is a reverse mortgage an option? Is a life settlement an option?

Finally, don't overlook that the home care benefit is simply not appropriate for some people. An older person who lives alone is not going to be home long, even with long-term care insurance to help. A policy that will pay for 8-10 hours a day won't keep someone at home who can't be left alone for the other 14-16 hours. Can the person manage his or her medication? What about the upkeep of the home combined with cooking and managing the food acquisition process? Finally, what about the social isolation? Someone like this may be much better

served with a higher daily or monthly benefit and a "facilities-only" policy that makes a really nice assisted living facility a viable option. Premium savings for this type of plan can range from 20% - 40%. And believe it or not, there are 50-somethings who simply do not want to be at home. They want the "Club-Med" assisted living facility, and do not want to spend premium on a home care benefit that they will never use. The premium savings for a Facilities-Only plan may be what you need to include the better inflation benefit that they really need much more than home care benefits.

I will continue to think about ways to get to the masses.