

Brokers prepare for fallout from LTC inflation options and educated clients

Despite some advisers' warnings, a majority of long-term care insurance buyers continue to opt for the future purchase option form of inflation protection,...

by Robert L. Whiddon

May 1, 2006 - Despite some advisers' warnings, a majority of long-term care insurance buyers continue to opt for the future purchase option form of inflation protection, which allows people to periodically buy additional benefits, over the automatic benefit increase, which automatically compounds benefits 5% annually and is considered to be the preferred choice.

Some contend that FPO is the popular option for the ill informed because of its lower initial premium price. The problem for brokers, carriers, consultants and anyone else who promotes FPO is that the ranks of uninformed consumers are shrinking. Once educated, these clients are rarely pleased with their advisers for recommending FPO.

Certainly, the number of consumers picking ABI is growing. A survey of new group LTC premium in the February issue of the magazine Broker World notes that 18% of employees chose automatic compound inflation protection in 2004, 60% more than in 2001. Still, some 57% of purchasers selected the future purchase option.

That split is a far cry from the breakdown of the 4-year-old federal program, in which 68% of its 211,000 participants chose automatic compound inflation. Federal officials say education is the key.

All about education

"We made a conscious decision to promote automatic compound inflation," says Laura Lawrence, who runs the federal program as chief of the FSA, Life and Long-Term Care Insurance Group for the U.S. Office of Personnel Management. "It was very important to us because as the program sponsor, we don't want to fool people into buying coverage that 10, 20 or 30 years from now, when they end up needing benefits, isn't going to be worth much."

The program's architects employed a variety of noteworthy strategies to ensure that participants understood the inflation issue completely. The communication materials are widely regarded as among the best for this product. Maybe more importantly, though, they default participants into ABI. If a purchaser still insists on FPO, then they are automatically enrolled in the benefit buy-ups that take place every few years. While they can decline, they have to positively do so, instead of actively accepting.

"Unlike many other agents out there and other programs that just want the sale, we want people to purchase automatic compound inflation," Lawrence says.

Many agents are after the sale, but increasingly, they are chasing FPO programs in the hopes of converting them to ABI.

Brad Winnekins, president of Hartland, Wis.-based Legacy Services, notes that while more employees are choosing ABI, there are still many benefit managers with programs just a few years old that do not understand the distinction between ABI and FPO. They are still running FPO-only programs.

Howard Berriman, assistant HR director for Missouri State University in Springfield, Mo., recently realized the crucial flaw of his school's FPO-only plan.

"You really sit on the horns of a dilemma," Berriman says of the FPO/ABI debate. Now, he gets it six years after Missouri State launched the program with Aetna. "On the one hand, FPO allows access to coverage for more people because it's affordable. On the other hand, the auto-inflation ensures a premium that probably would be more affordable later in life."

With Winnekings's help, Berriman got up to speed on the issue and then went back and convinced Aetna that his 2,100 eligible participants should be given the opportunity to reselect their choice of inflation protection. The carrier agreed, and workers did so earlier this year. Berriman doesn't blame Aetna, pointing out that he was responsible for making sure the LTC program was suitable for his workers.

"I think I have some responsibilities as the benefits manager at the institution," he says. However, he is aware that there is some guilt to be had by an adviser associated with an FPO-only plan and an uninformed benefit manager. Missouri State has a benefits adviser under contract, but Berriman refuses to disclose the name of the firm. And while he's not angry at Aetna, he does think carriers can learn a lesson from his experience.

"Forewarned is forearmed," he cautions the carrier community. "You're sort of on the alert. You are going to be dealing with a different clientele of benefit managers who are a little bit wiser now."

Berriman says he is not advocating one form of inflation protection over the other; he simply wishes to emphasize that employees should be fully informed.

"Let the employee make an informed decision and move forward," he declares.

The message is spreading

Phyllis Shelton, president of LTC Consultants, sharpens Berriman's point and jabs at others she thinks are responsible for employers' and participants' uninformed states.

"You know where the failure is in my opinion? The consulting firms, the big ones. There are so many of them I've been aware of that have advised employers to do FPO because of the cheap rates," says Shelton.

She knows whereof she speaks. MetLife, which, along with John Hancock, provides the insurance for the federal program, tapped Shelton to head up the education and communication effort. She assembled and trained a team of 16 enrollers, which then conducted more than 2,000 meetings in 210 cities spanning 43 states, all in fewer than five months.

But as much as she faults consultants "They are dropping the ball big time," she says Shelton agrees the ABI message is definitely spreading.

"[Knowledge] is much better today," comments Shelton, who recalls a time not too long ago when ABI wasn't even offered. "It's just that [many] HR people haven't been educated. Once they are, the smart ones understand the issue."

John Hancock's shifting book of LTC business corroborates Shelton's statement.

Of the 39 group plans that Hancock administered in 2005, 38 offered ABI as an option. Significantly, 36% of participants took ABI. That's dramatically higher than the industry average, and a big bump up from Hancock's numbers in 2004, when 27% of participants elected ABI.

Dennis Healy, vice president of new business development in Hancock's group LTC department, believes carrier reps simply are doing a better job of communicating the ABI benefit. He too thinks the message is working its way through the marketplace, although he is agnostic on the issue of FPO versus ABI.

"I don't think we necessarily advocate either one in the group market," he says. "Give [employees] the tools to make a decision to meet their needs individually."

No end to FPO

Although the evidence in ABI's favor is legion, don't expect an end to FPO. It is generally understood that carriers are reluctant to offer just ABI, and will not offer open enrollment for even an ABI/FPO combination plan. Underwriting, albeit often limited, is required for ABI, which is why, some say, carriers have successfully sold group FPO-only plans.

Moreover, brokers pushing those individual ABI-only policies in voluntary benefit plans are not entirely altruistic in their zeal, says Healy. For one thing, they can't even get a conversation started about FPO because the group rates for such policies are significantly lower than anything available in the individual market. The pricing gap narrows in ABI. And brokers make more money on ABI as well.

"The premiums are going to be much higher on ABI, so the commission is going to be much higher," Healy says. "I'm not doubting they believe in it, but let's bring everything to light," he adds.

Plus, there are situations where FPO may make sense. For example, Healy says, someone in his 60s or otherwise approaching a fixed income may want to join a plan at FPO's lower premium level.

"Affordability is a big issue there," he notes.

Even hard-line brokers who generally advocate ABI can see the potential of other options for certain participants.

"When we talk to our customers about group long-term care insurance and automatic benefit increase, we make sure they are hypersensitive to the fact that in most cases unless you are older if you are buying this at the workplace [while in your 40s or younger] there needs to be significant consideration given to ABI," says Rich Reda, director of Lockton Communication Services.

Lockton's group LTC split is roughly 25% ABI and 75% FPO. Individual business breaks the other way, with 65% to 70% choosing ABI and 30% selecting FPO. Again, Reda points out, the split comes down to communication and the truncated level of discussion and suitability analysis found in a group setting.

"When you spend enough time with an employee [in an individual setting], the suitability becomes clearer to them," Reda says.

Still, some believe the tide is shifting and that as more employers become aware of the differences between inflation options, they will ensure their workers understand as well. Their reputations serve as their motivations to do so, says David Guttchen, director of the Connecticut Partnership for Long Term Care.

"I always tell employers and associations," Guttchen comments, "it's your name on this offering."

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