

## Test Your LTCI Knowledge: What Has and Has Not Changed

When I was invited to speak at the 2006 Annual Conference for the National Association of Health Underwriters (NAHU) on “The LTCI Producer: Successful Sales Techniques”, I knew I had to give a solid overview of the LTCI industry as successful producers need to possess a clear understanding of where the market is today and where it is headed. To do this, I grouped the information under two important headings: what HAS changed and what has NOT changed in the world of LTCI. See how many **YOU** know...

### WHAT HAS CHANGED IN THE WORLD OF LTCI

*Access to Medicaid is more difficult* – Thanks to the Deficit Reduction Act of 2005 (DRA) signed into law on February 8<sup>th</sup> of this year, there is finally a strong message being sent to Americans that Medicaid isn't free. Notable changes have made the look-back period 60 months for all transfers and the penalty period to start on the date of eligibility, not the date of transfer. Other less talked about provisions require the “income first” rule vs. the “resource first” rule when computing the income allotment for the spouse at home. Plus, the expansion of the LTCI Partnerships will go a long way toward making Medicaid last resort, not first resort. Expect states to start implementing them in 2007.

*Self-insurance is growing less popular for two reasons:*

- Seeing family members spend down quickly
- Seeing family members need LTCI and see that Medicaid isn't an easy bailout

However, to really nail this objection, the successful producer must be able to explain:

- 1) that the true cost of LTCI is paying at future costs (using a 6% inflation rate) and losing the investment opportunity on the money....illustrating the cost for around-the-clock care for really wealthy clients can make a significant impact; and
- 2) that most long-term care happens outside of a nursing home, and this goes a long way to nullifying the denial objection that the self-insurance response is often masking.

*Medicare supplement is not such a commodity* – According to the AARP Public Policy Institute, only 1 in 4 people over 65 have a Medicare supplement, and the average annual out-of-pocket acute health care costs for Med supp policyholders is about \$5100 vs. \$2,500 for people no supplemental coverage to Medicare. In short, people are paying more annual premium for Medicare supplement policies than they are getting back in benefits. Balances to Medicare today are very small since the maximum doctors can charge is 115% above the Medicare-approved rate and drug coverage has been shifted to Medicare Part D. As affluent people realize that the real risk today is long-

term care, many opt for the new Medicare Advantage plans with low premiums or self-insure balances to Medicare.

*Consumer awareness is growing with help from Federal and state government programs* – The “Own Your Future” public awareness campaigns funded with Federal dollars have happened in nine states – NJ, MV, ID, AR, VA, RI, MD, KS, WA with a letter from the governor to ages 50-70 and subsequent media efforts. The response rate at 7.7% has been astounding, which shows that consumers are hungry for reliable information about LTCI from reputable sources. To see a full report of activity, go to [www.ltcaware.info](http://www.ltcaware.info). Two states, New York and Iowa, are conducting their own consumer education campaigns. New York has educators on the ground conducting seminars. Iowa is doing television advertising. Producers in these states will do well to leverage communication efforts around these state-provided communication efforts.

*Company advertising* – a few companies are advancing television spots – Genworth, John Hancock, Mutual of Omaha quickly come to mind. It would be phenomenal if the companies would pool resources here to do a “Got Milk” type of campaign but I don’t look for that to happen.

*Cost of care is MUCH higher* – It’s so amazing to me to still see so much push-back on inflation coverage while watching LTCI articles use higher and higher daily/monthly benefits when illustrating the cost of long-term care. Think about it...in 1999 the common benefit illustrated was \$100 per day. By 2003 it was \$150. Now it’s not unusual to see references to \$200. Nine hours of home care or semi-private facility care averages \$170 per day and private facility care comes in at \$190. Connect the dots...and ask yourself if you would think of selling health insurance to prospects of any age that only pays hospital room rates at what they cost today.

*Average premiums are higher* – most companies have introduced new products with higher premiums, largely as a result of the NAIC Model Regulation of 2000 which requires actuarial certification that rates won’t ever go up and if they do, much justification is required. The good news is that in 2006, the “fire sales” are pretty much over and except for California which lags so far behind in new product approvals, the rest of the country is on an even playing field with rates.

*Underwriting is tighter* – With better claims information and Wall St. taking a really hard look at the LTCI industry, underwriting has toughened up, particularly on common conditions like diabetes and obesity. The message to take LTCI to the pre-retirement ages has never been more clear as up to 1 in 4 people are declined at age 65 and 1 in 3 at age 75 (source: Urban Institute)

*Age of the buyer is younger* – In 2005, 70% of buyers were under age 65 and half were under age 60. Contributing factors are higher premiums and tighter underwriting, plus the rapid growth of LTCI in the worksite market along with increased awareness as baby boomers are experiencing LTC firsthand with family members, including spouses.

*Business mix is shifting to WORKSITE* -- HSA's are starting to have an impact with the ability to pay an age-based premium with pre-tax dollars. In 2005, almost half of the policies issued were sold either through true group or multi-life products. A strong employer endorsement combined with a highly educated workforce and a thorough employee education campaign paves the way to phenomenal penetration in a worksite case.

*Benefit Selections* – with better utilization information finally becoming available, the direction of the market is away from the unlimited benefit period. Some new entrants will not have a lifetime benefit period and some companies have eliminated it for younger ages. The Partnership expansion will continue this trend. I believe it is much better to sell a meaningful daily or monthly benefit and the right inflation protection first, and then fit the benefit period to the applicant's budget. Selling longer benefit periods without either one of those can result in an early Medicaid claim if the applicant can't make up the difference at claim time between the policy benefit and the cost of care.

## **WHAT HAS NOT CHANGED IN THE WORLD OF LTCI**

*Market Penetration* – we're still in single digits as a whole and only about 15% for age 65+...LTCI sales just aren't keeping up with the aging population. This can change with accelerated national consumer awareness efforts combined with better tax incentives. If this happens, my concern is that there are enough financial professionals who understand the LTCI sale enough to meet the demand. The DRA requires national agent training for LTCI along with the Partnership expansion. Hopefully this training requirement will be meaningful and not just pay lip service to this requirement.

*Inflation Rate* – still averaging almost 6% (source: *Health Affairs*, CMS, 2/22/06) At that rate, ten hours of home care (or private facility) will cost about \$375,000 a year in 30 years, which is about \$1,000 a day or almost \$30,000 a month.

*Main objection* -- "LTCI is nursing home insurance for old folks." This means the very beginning of every sales, seminar, benefit manager or employee education presentation should emphasize that less than 20% of LTC is in a nursing home (Kaiser Commission, 5/04) and almost 40% of people over 18 who need LTC are working-age adults 18-64 (National Alliance for Caregiving/AARP, 4/04)

*Sales Formula* – 80% Education / 20% Product – as long as people don't believe they need LTCI, there's no point in talking about a product. A major buyer/non-buyer survey said the most successful producers:

- emphasize the right issues in the right order
- are able to discuss the emotional issues surrounding LTC; and
- are able to effectively guide the prospect through the plan design selection.

To do these three things effectively, I recommend using a visual vs. trying to sell from a brochure.

*New ways to pay the premium: reverse mortgages and life settlements* – both are intriguing ways to find the premium dollars to fund LTC insurance and/or pay for LTC for the uninsurable. See my free sales newsletter at [www.ltciharvest.com](http://www.ltciharvest.com) for more ideas!

My best advice? Don't ever rest on your laurels and think you know this market inside and out. I certainly don't think I do – I study constantly, and with the proliferation of conferences, designations, email newsletters and folks like me to help, you will always have plenty of resources to keep you busy!

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7/7/06