

# Comparative Value of the Newest LTCL Policy Features

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# Introduction

- Actuarial consulting specializing in LTCI
  - Timmerberg & Associates, Inc.
  - 15 years of LTCI experience
- Licensed Agent in Indiana
- Opportunity to give both perspectives

# Introduction

- Combination of Presentation and Workshop – significant portion of session is devoted to audience discussion.
- I will provide some background and introduce topics to stimulate discussion.

# Question #1

- Some companies are now offering LTCI policies with a 20% co-pay (policyholder pays 20% of all claims).
  - A) “This is a good way to reduce premium and I will be offering this to clients.”
  - B) “Clients are not interested in making the 20% co-pay, even if it saves premium.”

# Two Insurance Concepts

## ● “Induced Utilization”

- Example: If I have a gift card for a restaurant, I am more likely to go out to eat.

## ● “Moral hazard”

- This benefit is attractive, so I am going to “stretch the rules” to access it

# Reaction...

## ● John, the agent

- This idea reduces premium, which is the biggest hurdle to sales.
- It is not difficult to explain.
- I will give it a try.



# Reaction...

## ● John, the actuary

- This idea reduces both Induced Utilization and Moral Hazard. I really love this product concept.
- A 20% co-pay should save more than 20% of premium !

## ● (Stop, for discussion)

# Question #2

● Which statement best describes your LTCI sales activity:

- A) “After I make an LTCI sale, I expect to be in contact with my client on an annual basis over the years.”
- B) “After I make an LTCI sale, it’s possible that I may not be in contact with that client again, ever.”



# 25 to 40 years from now....

- We don't know:
  - My wealth
  - My health
    - Am I still alive?
  - Changes in Government programs
  - Insurance company status (sold, merged)
  - Inflation
  - Insurance regulatory environment

# 25 to 40 years from now....

- Many unknowns
- “Single Solution” may not be realistic
  - High level of commitment by policyholder
- “Evolving Solution” is an attractive idea
  - More flexible approach

# Product Concept

- Policyholder may increase coverage every three years
  - Decrease Elimination Period
  - Increase Daily Benefit Amount
  - Increase Benefit Period
  - Does not expire, even if options are not taken
- For increase in coverage, no underwriting
  - Like GPO, but more options, and never expires

# Reaction...

## ● John, the agent

- This stuff is already complex and I will confuse the policyholder at time of initial sale.
- Annual reviews are a lot of work.
- But, I could be developing additional business from these visits

# Reaction...

- John, the actuary

- I really love this product concept.
- It reduces policyholder commitment and provides for much greater flexibility.

- (Stop, for discussion)

# Question #3

● “As compared to business I sold in the 1990s, my commission %’s on new business are down, especially for policy durations 11 and later. But, those later policy durations aren’t worth much so I don’t focus on that.”

- Agree
- Disagree



# Commission Facts

- For policies issued to 55 year old individuals, about ½ will still be active 20 years from now.
- Compare:

	First yr	2-10	11+
Option 1	70%	12%	3%
Option 2	77%	12%	2%

- Which do you prefer?

# Reaction...

## ● John, the agent

- Seems like these LTCI policyholders never lapse. And with tight underwriting they are going to live a really long time.
- But, it's difficult for me to judge the value of those cash flows. I have enough to worry about without getting caught up in MBA-type calculations.

# Reaction...

- John, the actuary

- It might be worth considering this kind of impact, depending on the volume of your business.

- (Stop, for discussion)

# Question #4

● “I like cash benefit policies. If I had that product in my portfolio, I wouldn’t sell anything else.”

- Agree
- Disagree

# Reaction...

## ● John, the agent

- Listen, after I am fortunate enough to...
  - get a lead
  - make an appointment
    - (and prospect shows up at appointment)
  - establish rapport
  - educate client
  - move to close...
- I don't want to lose this sale over a "modest" product difference!
- I need Cash Benefit !

# Reaction...

## ● John, the actuary

- Keeping in mind the concepts “Induced Utilization” and “Moral Hazard”, I am skeptical about 100% cash.
- Partial cash makes more sense.

## ● (Stop, for discussion)



# Question #5

● “I see a company is offering varying periods of rate guarantees for additional premium. At the right price, I would sell the 25 year rate guarantee.”

- Agree
- Disagree

# Reaction...

## ● John, the agent

- I'm not sure if this complicates the sale or helps overcome objections.
- Now I may end up spending more time talking about the possibility of rate increases.
- But, I can give it a try and see what happens.

# Reaction...

- John, the actuary
  - I like this concept. It should encourage tight discipline in the pricing, underwriting and claims processes.
- (Stop, for discussion)

# Question #6

● “I see companies offering full benefits for International Coverage. I don’t have a lot of clients asking about this, but it does come in handy, occasionally.”

- Agree
- Disagree

# Reaction...

## ● John, the agent

- This sounds like a neat idea. The client retires overseas and still has LTCI benefits.
- Gets clients thinking about their dream retirement, which is a good thing.

# Reaction...

## ● John, the actuary

- I have concerns. The ability to check the claim eligibility status of the policyholder is greatly diminished.
- The possibility of over-utilization is somewhat higher.

## ● (Stop, for discussion)



# Question #7

● Which statement best describes your position?

- A) “For similar policies, ALF at 100% of the NH benefit is the best choice. Why not?”
- B) “For similar policies, ALF at 70% of the NH benefit is more than sufficient.”

# Assisted Living Facilities

- Paying at 100% encourages policyholder use of high-end facilities
- Presence of insurance encourages growth of high-end facilities
- More facilities leads to higher utilization...??

# Possible effects

- Policyholder doesn't need 100% ALF
- But, presence of benefit is increasing LTCI costs to the insurance company
- ... putting policyholder at risk for rate action ?

# Reaction...

- John, the agent

- Listen, after I am fortunate enough to...
  - get a good lead
  - make an appointment
    - (and prospect shows up at appointment)
  - establish rapport
  - educate client
  - move to close...
- I don't want to lose this sale over a modest product difference!
  - I need every possible edge
- I need 100% ALF!

# Reaction...

- John, the actuary
  - 70% ALF controls for the Induced Utilization and Moral Hazard that I am concerned about and helps keeps premiums down
- (Stop, for discussion)