

*Choose the best policy
for your client.*



Ted Pass, CEO
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To be discussed



- How should benefits be chosen for a client?
- How to choose among policies?

How do agents choose benefits?

- I always sell \$160/day for 5 years
- I sell compound inflation to young clients and simple to older ones
- I start with the cheapest plan to avoid sticker shock, then move them up
- I sell 3 years with the shortest elim period
- I ask if they have Alzheimer's in the family and sell Lifetime if they do

Is there a more “rational” way?

- Why is the client buying insurance?
- If to protect assets, is the best policy the one that protects the most assets?
- Yes, but it costs too much
- So maybe the job is to protect the most assets at an affordable cost

Configuring Benefits

- ✓ Develop a model to calculate the cost of uncovered care for a set of benefits
- ✓ Apply the model to different potential benefit choices
- ✓ Find the policy benefits that best protect assets

Model Inputs



- When will client need care?
- For how long will they need it?
- What will care cost when it is needed?
- What will the dollar be worth?
- All are unknown, make reasonable guesses based on available data

Model Outputs



- Total Cost of care needed
- Cost paid by insurance
- Cost paid by insured (to be minimized)

If combined with premium data, this could help us choose a policy

When will they need care?

- ✓ CDC, NCHS: The Changing Profile of Nursing Home Residents: 1985-1997:
Average age at entry to nursing home is 83
- ✓ The age is increasing over time
- ✓ Average age of starting home care is probably 1-2 years earlier

Care for how long?

- NNHS 1999: Avg nursing home stay of current residents is 892 days
- SOA Multicompany Claim Study: Average length of LTC claim by 2004 was 1040 days
- 3 years of care is a reasonable starting assumption
- Alzheimer's cases likely last longer

What will care cost in the future?



- Projecting cost based on the past depends on period you look at.
- Facility care inflation estimates 3% - 7%
- Home care estimates 1% - 12%

Genworth Study: Facility Care

Four-Year Trend in Annual Cost of Facility-Based Care

National Findings Facility-Based Care	2004-2007 Variance	2004-2007 % Variance	National Compound Annual Inflation Rate
Nursing Home, Semi-Private Room	\$8,311	14.41%	4.59%
Nursing Home, Private Room	\$9,621	14.76%	4.70%
Assisted Living Facility, Private Room	\$3,809	13.25%	4.23%

Genworth study: Home Care

Four-Year Trend in Hourly Cost of Home-Based Care

National Findings Home-Based Care	2004-2007 Variance	2004-2007 % Variance	National Compound Annual Inflation Rate
Non-Certified but Licensed Home Health Aide Services	\$0.14	0.77%	0.26%
Non-Certified but Licensed Homemaker Services	\$0.81	4.86%	1.60%

Future value of the dollar

CPI URBAN PRICE INDEX

			INCREASE
1997	160.5		
1998	163	1.016	1.6%
1999	166.6	1.022	2.2%
2000	172.2	1.034	3.4%
2001	177.1	1.028	2.8%
2002	179.9	1.016	1.6%
2003	184	1.023	2.3%
2004	188.9	1.027	2.7%
2005	195.3	1.034	3.4%
2006	201.6	1.032	3.2%
		Average:	2.6%

Excel model base case

- Married client, age 65
- Will go on claim at 85
- Will receive care for 3 years
- Cost of care will be current cost, inflated at 4.5% per year, and then adjusted back to 2008 dollars, using the CPI rate of 2.6%
- What does the model tell us?

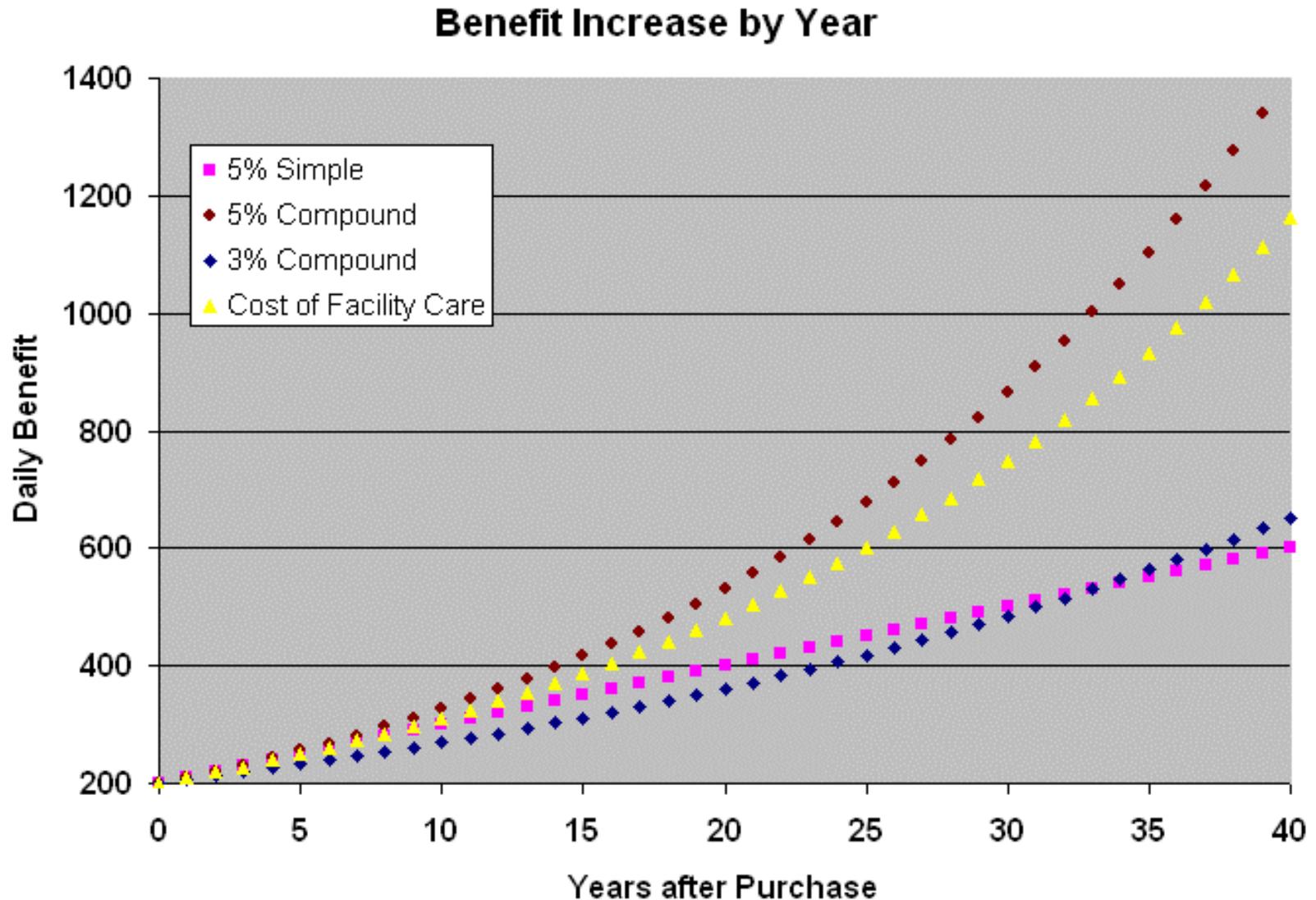
Effect of Inflation Option

Inflation Protection	3%	4%	5/3%	5%	6%
Current Age	65	65	65	65	65
Age at Claim	85	85	85	85	85
Years of Care	3	3	3	3	3
Daily Cost & Benefit	\$200	\$200	\$200	\$200	\$200
Total Cost of Care	\$321,989	\$321,989	\$321,989	\$321,989	\$321,989
Insurance Pays	\$218,191	\$267,518	\$237,534	\$296,008	\$296,008
Client Pays	\$103,798	\$54,470	\$84,454	\$25,981	\$25,981
% Insurance Pays	68%	83%	74%	92%	92%

Inflation Options 2: care beyond coverage period

Inflation Protection	3%	4%	5/3%	5%	6%
Current Age	65	65	65	65	65
Age at Claim	85	85	85	85	85
Years of Care	5	5	5	5	5
Daily Cost & Benefit	\$200	\$200	\$200	\$200	\$200
Total Cost of Care	\$546,708	\$546,708	\$546,708	\$546,708	\$546,708
Insurance Pays	\$237,876	\$292,102	\$237,534	\$359,404	\$445,766
Client Pays	\$308,832	\$254,606	\$309,174	\$187,304	\$100,942
% Insurance Pays	44%	53%	43%	66%	82%

5% Simple vs 3% Compound



Rule for choosing inflation option

- If the client can afford 5% compound, good
- Otherwise if client is 50 or under, get 3% compound
- Over 55, get 5% simple
- From 50-55, take the cheaper option

Client copay for different benefit choices

Facility Daily Benefit	\$180	\$160	\$135
Facility Benefit Period	3 Years	4 Years	5 Years
Maximum Benefit:	\$197,100	\$233,600	\$246,375
Premium	\$1,983	\$1,984	\$1,944
3 yr claim:cost of care	\$289,790	\$289,790	\$289,790
Insurance pays	\$266,407	\$261,902	\$220,980
Client pays	\$23,383	\$27,888	\$68,810
4 yr claim:cost of care	\$389,986	\$389,986	\$389,986
Insurance pays	\$323,463	\$361,300	\$304,847
Client pays	\$66,522	\$28,686	\$85,139
5yr claim:cost of care	\$492,037	\$492,037	\$492,037
Insurance pays	\$323,463	\$386,382	\$390,676
Client pays	\$168,574	\$105,655	\$101,362

Buy a higher daily benefit and less inflation?

- Inflation protection is too expensive for my client
- I'll sell her a plan with no inflation and a higher daily benefit to make up for it.
- That way she'll have enough insurance when she needs care
- Good or bad idea?

Daily benefit needed to make up for less inflation protection

- Client age 65
- Current LTC cost \$200
- Buys 3 year policy
- At 85, needs 5 years of care
- Buy \$200/day and 5% compound or higher initial daily benefit?

Inflation	Daily Ben
5%	\$200
4%	\$245
3%	\$300
2%	\$370
1%	\$460
0%	\$570

Cost of Higher Daily benefit

Compound Inflation Percent	Daily Benefit	Premium
5%	\$200	\$2124
3%	\$300	\$2529
0%	\$570	\$3120

How do I get the premiums?

Free

- Use carrier software
- Use carrier website

Almost free

- Get rate comparison software or website
- Best for comparing, choosing a policy

StrateCision LTC Quote Comparison

Client Name	Richard Prospect	Richard Prospect	Richard Prospect
Benefit / Policy	Genworth Privileged Choice	John Hancock Custom Care II	MetLife Ideal 2
Facility Daily Benefit	\$200	\$200	\$200
Facility Benefit Period	3 Years	3 Years	3 years
Home Care Daily Benefit	100%	100%	100%
Home Care Benefit Period	Pooled	Pooled	Pooled
Inflation Protection	Simple	Simple	Simple
Facility Elimination Period	30 days	30 days	20 days
Nonforfeiture	Contingent	Contingent	Contingent
Spouse Premium Waiver	No	Yes	No
Survivorship	Included	Yes	Yes
Marital Discount	Both Spouses	Both Spouses	Both Insured
Payment Option	Lifetime	Lifetime	Lifetime
Modal Factor	Annual	Annual	Annual
Other	Policy Type Individual	Benefit Type Daily	Pool of Money \$219,000
	Monthly Benefit \$6000		
	Maximum Benefit \$216,000.00		
	Home Care Elim Period 0 days		
Premium	\$2,134.20	\$2,168.87	\$2,183.35

How do I compare LTC contracts

- Policy comparison programs are available from vendors (like us)
- Find one that creates feature comparisons that are easy to understand and show your clients
- Help your clients by showing them the right policy AND the right benefits

StrateCision LTC Advisor Comparison

Policy Comparison

09-20-2007

Prepared for: Valued Client
age 55, state: IL

Supplied by: Ted Pass,
StrateCision, Inc

Company	Genworth	John Hancock Life Insurance Co	United of Omaha
Policy	Privileged Choice	Custom Care II LTC-03	Assured Solutions Plus TQ
PREMIUM FOR SELECTED BENEFITS			
Premium	\$2, 820. 00	\$2, 429. 98	\$2, 530. 84
Tax Qualified	Yes	Yes	Yes
Underwriting Class	Preferred	Preferred	Preferred
Facility Daily Benefit	\$200	\$200	\$200
Facility Benefit Period	3 Years	3 Years	3 years
Home Care Daily Benefit	100%	100%	100%
Home Care Benefit Period	Pooled	Pooled	Pooled
Inflation Protection	Compound	Compound	Compound
Facility Elimination Period	30 days	30 days	30 Days
Nonforfeiture	Contingent	Contingent	Contingent
Return of Premium	No	No	Yes
Payment Option	Lifetime	Lifetime	Lifetime
Modal Factor	Annual	Annual	Annual
OVERVIEW OF PLAN			
Inforce LTC Premium(in millions)	1, 656	1, 302. 8	123*
FINANCIAL RATINGS			
Standard and Poors Rating	AA-	AAA	AA-
A. M. Best Rating	A+	A++	A+
Percentile Rating	38	78	41
PREMIUMS & DISCOUNTS			
Rate Guarantee	No	No	5 years built in. Options to extend for a total of 6, 7, 8, 9, or 10 years.
HOME CARE COVERAGE			
HHC Elimination periods	0	Same as NH/waived with	same as NH/waived with rider

Conclusions

- There may be better ways to design LTC plans than agents use now.
- Simple Excel models can tell you how much asset protection is offered by different benefit choices.
- It does take time, but your clients will benefit from having better coverage for their money.

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