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LTCi e-Seminar
Conference Series

Inflation Options
An In-depth Look

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REWARDS

THIS EVENT IS WORTH
50 REWARD POINTS!*

*SOME RESTRICTIONS MAY APPLY
VISIT WWW.GOLDENCAREREWARDS.COM FOR DETAILS
LIMIT 1 REWARD CODE PER UNIQUE TRAINING EVENT

A copy of today’s slides will be available at:
www.ltcagentsalestools.com

Updated Medicaid Calculator is available
Click on the links tab to update your CEO!

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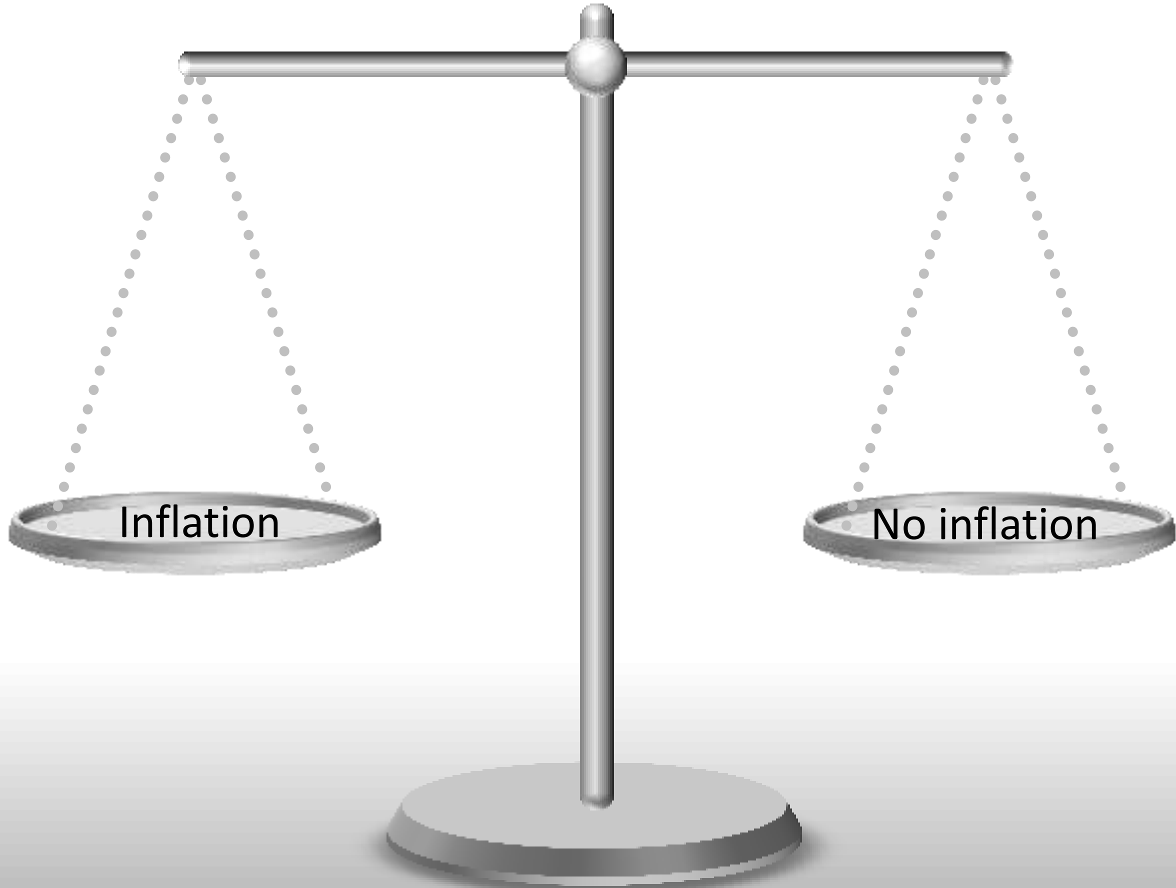
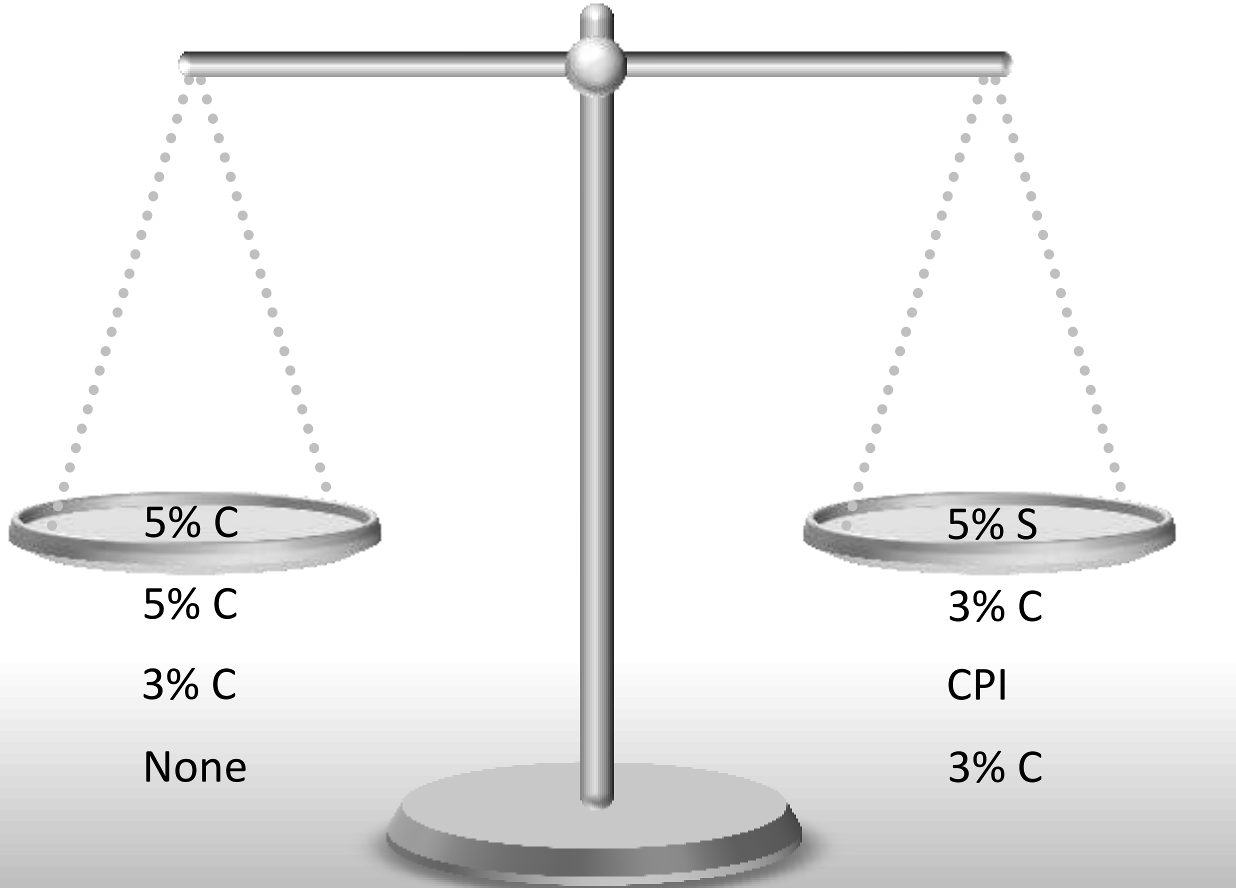
In the old days, it was simple…



Now, it’s not so simple…



Comments on discussion on LinkedIn

- I used to be a giant fan of ONLY 5% compound, as time has gone on and we see the "penalty" for choosing 5% compound, I have looked at other options. 3 % compound is a great value for the price as well as other newer options.

- I use 3% compound a lot in my illustration process and for the older people, say 70+ that want to purchase LTC, they do not have a lot of time to build on their inflation options like a 50 year old would. What I would normally do in that case is give the client as much benefit up front as I can with no inflation option, so this way the client will be able to have as much benefit as they can to fit in their premium tolerance. The 3% compound option is great though because it's usually the least expensive out of the inflation options, however for younger people I still use the 5% compound inflation whenever I can.

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LinkedIn discussion (2)

- There is a reason that applications have a section specifically addressing inflation protection. If you choose something other than 5% compound, you must check a box saying that you did show your client the difference between the options and they chose against 5% compound......Why do they have that? I believe it is because, if affordable, 5% compound has shown over time to keep up with the rising cost of long term care.
- Some LTC is better than nothing and if 3% compound and a higher benefit makes it affordable for the clients, then that is a start. After all, we are here to do what's best for the client's and we can direct them as much as possible, however premium tolerance is the key. Hitting a client with "sticker shock" on a cadillac LTC policy is not the way to go. That's the easiest way to lose a sale.

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LinkedIn discussion (3)

- I just did some research on the numbers from over 15,000 LTCi policies sold in the last few years. A good percentage of this block was sold by experienced LTCi specialists. I'll share a few of the areas that I found interesting. Almost 40% of the apps were written with 3% compound - over double the number written with 5% Compound.
- …made me look back at Broker Worlds study for the past year and it had conflicting results, 35.3% of the applicants chose 5% compound, while 17.1% of the applicants chose 3% compound. Interesting that these finished 1st and 2nd in the rankings but in a different proportion than your study. FPO finished as the 3rd most popular choice among applicants.

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Some very solid arguments

- As for "growing too much", even if it does exceed the actual reimbursement/cost of what the client is spending, the benefit period will be extended until the pool of money is exhausted, so it isn't being lost. The client will have that "extra" money available to him or her to use longer than the benefit period was intended for originally. As you know, the costs of care are running wild, so I would rather (while the client is young) give them the 5% compound while it's affordable to do so and have them have extra benefits later on in life. We can't predict the future and what costs will actually be at that time so I would say that if the clients can swing a 5% compound, to do so. It will only benefit them in the future one way or the other. Also, in states like FL where they need the compound inflation to make it Partnership qualified, a younger person will pay an equal amount for the 5% compound option than an older person would pay for the 3% compound, so it really equals out depending on the attained age of the clients however the younger client will benefit in the long run.

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Solid with facts behind it…

- During the recent Hancock rate increase (Hancock represented about 55% or so of my total book) my clients were over insured. Hancock provdied each policy holder a statement of where their current benefits were ... along with a landing point for a lower inflation option in exchange for no rate increase. Almost every one of my clients took the lower inflation option since the 5% compounded placed them in an over-insurance situation.

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Relevant Points

- The issue is not what the cost of living increase will be but the cost of care will be when the client needs it. That is why 5% (based on the Genworth cost of care surveys) is important. With 10,000 Boomers turning 65 and then needing care at the same time, you can expect the demand for care services to add an additional cost increase in 20-25 years. Also, when a client is in their 80's-90's, how much of their retirement portfolio will remain after using if for retirement? Will they have enough to pay for the difference in the cost of care and the benefit on their LTCi policy?

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Leaders Contribute – Matt McCain, ACSIA

- The idea is to give your prospect a plan which addresses the physical, emotional and financial burdens that long term care places on family and friends. The only good plan is the plan that is in place at the time of claim. While skilled care costs have gone up, most care is custodial in nature and they do not go up as much since they are labor intensive. So you should design a plan that is affordable and addresses the same concerns of the client.
- Considering the client should have other forms of guaranteed income at the time of claim (social security, pension, interest on savings, etc) you can design a plan that takes the catastrophic situation and makes it manageable. Even a smaller plan can provide a lot of home care which can delay the need for a facility. 3% compound, or CPI, anything which increases benefit without increasing premium seems to me to make sense. Affordability is key.

Leaders Contribute – Mark Randall, ECI

- For years cost of care studies showed us higher inflation rates. However, as more studies were run, they showed other factors that artificially produced the higher numbers. An example is the increase in NH costs. As more NH's have moved to more rehabilitative care versus custodial care, the average ADL deficiency of current custodial residents are much higher than in the past. That means that current residents receive a higher level of care resulting in an increase in average costs over and above the actual inflation involved. Hancock was the first company that realized that in thier 2010 cost of care study. They went back over thier studies and said that actual 9 year averages were: SemiPrivate NH 3.2%, ALF - 3.4% and HH Aide - 1.3%. These numbers are right in line with long term inflation which I've found in my studies to be around 3.15%.

Realism…

- Once again what was appropriate for him at his age and financial situation, may not be appropriate for another client at another age and financial situation. I am glad we have the inflation options available,to custom fit today's LTC Plans.

- Having said that, my crystal ball just broke and I am not 100% certain that is what it (inflation) will actually do!

- You know that one thing that stands out in my mind is that there are many ways to "skin a cat" and I believe that each customer deserves (and gets from this group!) expert sound advice on how to prepare for an LTC need.

Realism (2)

- I now believe "some insurance is better than no insurance. My attitude has changed due to 1) Inflation can be cost prohibitive for many buyers and 2) The services received at the time of a claim are of tremendous value to the claimant and their family during a very stressful time.

Insight

- It's amazing how we can fit the argument to justify what we're selling

- In the past, we were able to sell policies that aimed to cover all of the perceived risk with higher daily/monthly benefits, longer benefit multipliers and higher inflation protection. Now we need to offer protection for most of the risk. The challenge for us is to provide the best coverage available by providing expert advice on costs of the different levels of care, average lengths of time that care is received in each setting, and total amount of money protected.

Insight (2)

- All this information about numbers seems "over analizing. 1) Either the prospect wants the insurance or does not. 2) They buy the carrier that they feel has the best value for the long haul and 3) They purchase as much insurance that is affordable. Our job is to listen and customize for each client using our knowledge and experience. I just want to have them say "thank you" when sitting next to me in an assisted living facility.

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What is the right answer?

- Following slides are taken from my "*Making Recommendations Based On Real Industry Claims Data"* webinar I wrote several years ago
- Last few years inflation has been very low and would skew numbers if I included them. So, I'm using the older numbers to show a more accurate picture

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SNF's

- Independent studies indeed confirm SNFs provide post-acute rehabilitation to dramatically more patients than in the past -- and at a significant savings to the Medicare program.
- A recent United Hospital Fund report, for example, found that the number of patients in New York State staying in a nursing home for less than two months more than tripled from 1996 to 2005. In addition to this rise in short-stay patients, the study further concluded that, "between 1996 and 2005, both long-term residents and short-term patients have become more disabled, and more of them are cognitively impaired."

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"New CMS Medicare Rule Undercuts Ability of SNFs to Care for Higher Acuity Patients, as Intended by Law ," 5/1/08, American Health Care Association

SNF Inflation – What It Shows

Producer Price Index
Skilled & Intermediate Care Facilities

Year	Dec.	Annual
1994	100.0	
1995	105.9	103.7
1996	111.6	110.0
1997	116.3	114.7
1998	121.4	119.6
1999	126.3	124.1
2000	134.3	131.0
2001	141.6	139.3
2002	145.4	144.6
2003	151.7	149.4
Nursing Care Facilities		
2003	100.0	
2004	103.9	102.6
2005	107.3 (P)	106.3(P)

Average Annualized Increase
4.5% Over 11 Years

But with previous slide… Maybe closer to 2.5 – 3%…. But, be careful with this one.

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HHC Inflation

Producer Price Index
Home Health Care Services

Year	Dec.	Annual
1996	100.0	
1997	106.2	103.3
1998	106.7	106.2
1999	111.0	107.1
2000	112.1	111.1
2001	115.7	114.0
2002	116.1	116.6
2003	119.0	117.0
2004	120.3	119.8
2005	121.7(P)	121.0(P)

Average Annualized Increase 2.1% Over 9 Years

Increasing usage of HHC means this is number that should be watched.

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ALF

- Every cost of care study shows 4+% annual increase in costs
- Reality? We're building nicer ALF's
  - The monthly cost of nicer facilities is higher
  - Increasing the average cost
  - Actually, inflation is fairly flat in ALF's

Or, should this be considered inflation?

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AVERAGE INCREASES IN LTC COSTS[3]

LTC SETTING	9-YR. AVG. CHANGE
Nursing home	
Private room	3.5%
Semi-private room	3.2%
Assisted living facility	4.1%
Home health care aide	1.3%
Adult day care	2.2%

The 9-year average annual increases are based on a comparison of data gathered from providers from across the country for John Hancock's 2002, 2005, 2008, and 2011 Cost of Care Surveys

The view of inflation in LTC has changed

- Companies are admitting they may have been high
- Most state partnerships plans under DRA accept 3% inflation (compare to old partnership states)
- Industry leaders are changing their training
- Current economic situation and rate adjustments are forcing change
- My training changed a long time ago as my studies indicated that most LTC is low tech and LTC inflation follows housing and employment numbers

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But – NO ONE KNOWS!

- Debates are great but no one (ok, there is someone) can predict the future
  - We can study the trends,
  - We can analyze numbers
  - We can study current economic situation
  - And try to predict the future…
- But you might as well just guess at a number…because that's how it all started…
- The story of inflation in LTCi policies…

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5% is not a magic number – it was a "guesstimate"

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So, what should we do?

- First of all, I would always recommend 3% Compound…
- Well, unless we're leveraging premium dollars…
- And, if you're working with wealthier clients with any type of planning…
- And, if you're working with a C-Corp attempting to use tax advantages of LTCi and the ability to pass dollars through to heirs…
- And, if you're dealing with a client that strongly feels 5% is a better option…
- And, if you strongly feel better when you sell 5%...

Always is a strong word…

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Let’s look at some actual numbers

- I’m going to use UoO rating software for illustrations
  - Download: **www.goldencareagent.com**

- I’m using the LTC CEO Present/Future Value calculator for comparisons and projections
  - If user, update your CEO by clicking on the links tab and “update”
    - (It’s free for the rest of my life…lol)
  - To get the CEO
    - If you’ve sold an app, call your RD for a free license
    - If you haven’t – sell an app or purchase from GC

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Case Studies

- Comparison of rates 5% versus 3% on 50-60 year old couple
- Fatter 3% versus 5%
- 3% versus 5% 20 years