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The Producer's Perspective On Long Term Care Insurance

*A Survey Sponsored by Broker World
LIMRA International
Society Of Actuaries – LTC Committee*

The successful sale of long term care insurance has remained a process clouded in mystery for many in the industry. It is first important to begin by recognizing the ongoing and important work of our industry support organizations to understand the forces at play. Exceptional research is available from LIMRA International, America's Health Insurance Plans (formerly HIAA), American Council of Life Insurers and many dedicated carriers.

While our industry has created a valuable body of research concerning LTCI issues, the majority of the information is about product manufacturers, executives of those carriers and consumers. We have a very good idea of what is being sold, the informed opinions of those in charge of sales and the motivation of those who buy. **What has been missing is the proverbial "view from the trenches."**

Before I can reveal what I believe are some very exciting findings from "The Producers' Perspective On LTC Insurance," I must thank those who worked with me to make this study possible. Jennifer Douglas, research analyst and project director from LIMRA, probably deserves a nomination for sainthood for spending many long hours during the development of our questionnaire. I also received support and encouragement from Jim Glickman, president and CEO of Life Care Assurance and past chairman of the long term care section of the Society of Actuaries. And a special thanks should go to many

friends in the LTCI brokerage community and to Ron Iverson and Steven Moses for advocating the survey in their respective newsletters. It is, however, the hard work, commitment and marketing skills of my good friends at *Broker World* magazine who made this a reality.

The most important thank you of all goes to the producers who took the time to complete the survey. As promised, a summary of the survey results have been forwarded to those producers who requested them.

The Survey Results

Approximately 300 experienced veterans of LTCI sales responded to our survey, and 99 percent have sold LTCI an average of seven years. The average number of sales in 2002 was 35 policies.

The only direct benefit of taking the time and effort to complete this survey was that the participant would be given the results directly from LIMRA. Traditionally, LIMRA research is available on a direct basis to member companies only. Clearly this optional survey appealed to the more experienced LTCI specialists, because the fact remains that the more successful and experienced a producer is, the more curious he is about what his peers are selling.

LTCI producers fall into three separate and distinct groups: (1) those who have not yet fully integrated this important "core" sale into their practice, (2) the dabblers who sell an occasional policy (probably at the

Chart 1: Level of Difficulty Selling

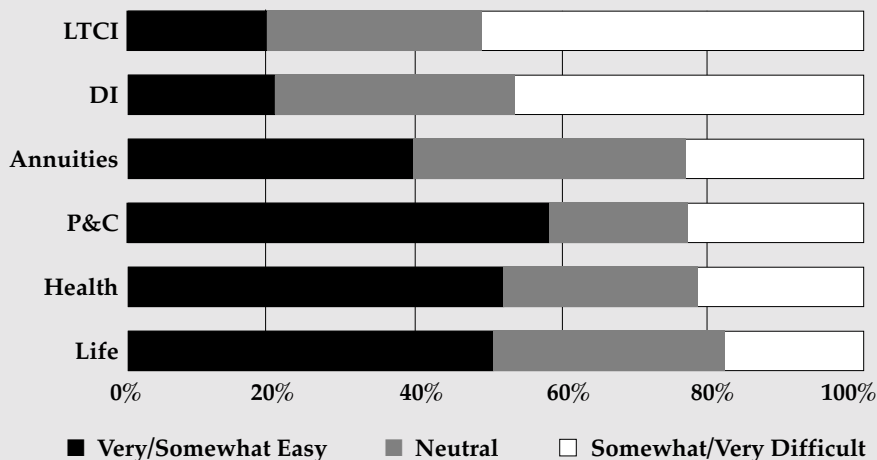


Chart 2: Activity in LTCI Markets for 2002

Market	Percent of Producers Active in Market	Percent of Total Business (All Products)
Individual	94%	74%
Employee benefits	39	13
Employer/employee carveout	33	6
Association/affinity groups	23	7

request of their clients), and (3) LTC specialists who proudly display that title on their business cards. It is this latter group which overwhelmingly comprises our survey respondents.

We had hoped to collect more information on non-sellers; however, we were unable to attract sufficient producers in this category to provide relevant data.

The LTCI veterans who answered our survey clearly understand that selling

LTCI is difficult at best (see Chart 1). LTCI is perceived by those who do it best as the most difficult of insurance sales transactions. We found no relationship between how much they sell and how difficult they consider the sale. There was a slight relationship between how long they've been selling and how difficult. Although the correlation was very mild, the longer selling, the less difficult. I wanted to begin here because this shines a giant spotlight

on what I believe is the greatest insurance mystery of our times.

When you contrast the perceived difficulty of the sale with the known extremely high levels of persistency, you have a conundrum of Sherlock Holmes proportions. Americans love their LTC insurance policies perhaps more than any other accident and health product in our history. However, it is very difficult to convince them to write the first check. The implications of this reality need to reverberate through the corridors of our industry home offices. *This sale requires passion, dedication, education, training and knowledge!*

We tried to evaluate "optimism" concerning our industry and future individual versus group sales. As a base line, LIMRA has reported a clear decline in sales for 2003, as new premium for individual LTCI sales decreased 7 percent. This was fueled to some extent by carriers exiting the market. It is important to note that one half of the carriers responding experienced growth in 2003, with 10 companies having increased 20 percent or more.

We are also aware that insurer enthusiasm for the group market has grown dramatically over the last several years. A majority of industry experts now predict strong double-digit growth for group LTCI sales. Perhaps spurred to some extent by the federal program, the cumulative in-force numbers for group sales are very impressive.

LTCI producers are more reserved in their predictions about the group market and more optimistic about individual sales than insurers. Our respondents tend to believe their own sales will fare better than the industry as a whole, with 58 percent saying their sales will increase by 10 percent or more.

We then took a look at chosen markets and the relative success in those markets (see Chart 2).

Although fewer than a quarter of the producers are active in the association/affinity market and this represents just a small portion of overall sales, there is some evidence that producers who are more active in the association market in general tend to

Chart 3: Products Sold by Respondents

	Percent Selling	Average Seller		
		Number of Years	Number of Carriers	2002 Sales (Policies Sold)
LTCI	99	9	5	35
Life	77	14	5	22
Annuities	68	12	3	13
Health	62	13	4	16
DI	56	14	3	10
P&C	11	12	4	25

Chart 4: Clients' Concerns

	Level of Importance		
	Not at all	Somewhat	Extremely
Relieving responsibilities of family care	3%	9%	88%
Asset protection	2	13	85
Own experience with LTC issues	2	16	82
Enriching choices of care	12	35	53
Avoiding dependence on government	26	28	46
Relative's or friend's recommendation	19	37	44
Advice from other financial advisors	34	36	30

sell more LTCI. What we seem to be looking at is the producers' perceptions as to where they believe they should be applying their sales efforts and the perceived difficulty of the multi-life sale. However, the more successful LTCI producers, indeed, have a greater presence in this market.

A majority of survey respondents are not selling LTCI exclusively. Instead, they likely began their careers selling one or more other products. However, these producers

are unique in that they currently sell more LTCI than anything else. Nevertheless, experience with selling life insurance and property casualty coverage translates into greater sales more often. This relationship between experience and productivity is not as apparent for the sale of LTCI today.

Still, selling LTCI involves a substantial "learning curve." Agents and general agents have learned the hard way that progress in sales is slow yet steady. Perhaps one of the

more interesting questions in long term care circles is "exactly how many producers sell LTCI as the primary source of their practice." The informal consensus over cocktails is somewhere between 3,000 and 5,000, with a few brave souls suggesting the number is as high as 10,000. It is clear that our survey has captured a significant representation of these "elite troops."

It is also interesting to note the average number of companies utilized by successful producers. Those of us in the brokerage community are familiar with the notion that no one company has a monopoly on the truth. Interestingly we found no correlation between how long a producer sold and how many companies he represents. In subsequent surveys we will try to identify the categories of companies that are needed to round out the requirements of an appropriate stable of carriers. What are the real needs: carrier ratings, benefits, underwriting, policy structure, commissions, service or price.

The number of sales per respondent is also significant at an average of 35 (see Chart 3). Our survey is not representative of all agents. We know that the great and vast majority of agents sell fewer than five LTCI policies a year. For example, LIMRA found that 94 percent of career agents sold fewer than 25 LTCI policies in 2000. The independent side exhibited similar results per reporting carrier. However, for the current survey respondents, eight out of ten producers sell for more than one carrier.

Mild relationships also exist between LTCI sales and how much of other products they are selling. In all cases, this relationship is an inverse one. Specifically, the more life products you sell, the less LTCI you sell. As it concerns DI, there was no noticeable relationship between how much DI one sells and how much LTCI they sell.

We also explored who producers partner with for successful sales. Just under half use CPAs, the most common response, followed by attorneys. Twenty-nine percent do not feel the need to partner with anyone, and a similar number claimed to seek assistance from financial planners and life agents. This was followed by healthcare

professionals at 21 percent and LTCI specialists at 15 percent.

We looked at what type of home office support is of the greatest value. We found no relationship between how much LTCI one sells and the relative importance of home office services. As might be expected, the more carriers used, the less important home office service and leads are to the broker. The more a broker is tied to the carrier, the greater the expectation of service, and vice versa—the more companies represented, the less expectation. This may simply be a reflection of the general level of expectation of service from any company, yet it may also represent an opportunity to differentiate for greater sales success.

Quality of service was the most important ingredient in choosing a company. Next in importance were the other primary home office functions—underwriting and issue. Other extremely important issues included product brochures, product illustrations, needs-based brochures, and training. Considered less important were direct mail pieces, seminar materials, leads, and facilitating partnerships.

Lead generation was examined to determine where volume producers look to generate sales. We found no relationships between lead generation and quantity of sales. However, this is likely due to the fact that most agreed the most effective sources were referrals, followed by current book of business and centers of influence. The least effective sales generation list was led by seminar selling and personal mailing.

There is an important message here concerning the nature of the LTCI sale. High persistency (a benchmark of our industry) seems to reflect higher customer satisfaction. Satisfaction with the product and the agent would also predict referral success as well as the obvious second choice for sales—current book of business. It may also be worthwhile to note that when looking outside traditional tried-and-true sales techniques, the first place agents look is seminar selling.

Three-quarters of the survey respondents own a LTCI policy. Producers who are LTCI owners tend to sell more LTCI. The con-

verse may be the real truth, confirming what I believe to be the most important message: you cannot sell LTCI as effectively unless you own your own policy.

Producers' perceptions on their LTCI clients' motivation may represent our most interesting finding (see Chart 4 on page 86). Previous consumer research seems to focus on financial and structural issues: asset protection, medicare and medicaid, inflation, and personal care choices. However, producers know that it is caregiving that drives sales in the individual and group market. Producers identified the burden of care as the number one sales motivation, followed by asset protection and personal experience. As I have said repeatedly, find the caregiving experience and you will find the sale.

We then asked what the producers discussed with their clients. Ninety-one percent of respondents discuss the financial impact of LTCI with their clients, followed by the economic benefit of LTCI. However, what is more important is that 83 percent discussed the emotional impact of LTCI, followed again closely by caregiving issues. Despite this, current LIMRA consumer data does not suggest that the same issues are being emphasized during the typical shopping experience. This may be an issue of who the majority of shoppers are speaking with or their own perception regarding what is being stressed. Still, successful LTCI producers describe this sale as a very emotional one.

LTCI is a critical and essential component of any adequate financial plan. Approximately half of our respondents indicated that they conduct a needs analysis with their clients at least the majority of the time. In the study of LTCI shoppers, a similar number have reported that this had been done. LTCI buyers were more likely to have had a needs analysis done.

Producers' views concerning gender and marital status were more predictable. Producers say their female clients are more likely to purchase LTCI; in fact, those producers with more female clients tend to sell more LTCI. In addition, when producers' LTCI clients were compared to their

total client base, there were more female clients. However, as far as marital status, they did not say their LTCI clients differed from their total client base.

When we compared age of clients, we found some small though perhaps not totally unexpected results. Our successful producers tend to have older clients—just a little more than a fourth of their clients are under 50. I believe it then follows that producers with a greater percentage of older clients were more likely to have sold more LTCI in 2002.

The producers in our survey describe their LTCI clients as having higher incomes and assets than LIMRA's current buyer/non-buyer research indicates. Producers with a higher percentage of clients in the \$100,000 to \$500,000 asset range and with income greater than \$50,000 were more likely to have sold LTCI policies in 2002. This simply confirms our knowledge that recent sales success of this product has come from the upper middle class. It also highlights our challenges for future sales. I believe growth will come from the worksite and a more precise understanding of leveraging risk among high net worth clients.

Questions concerning coverage purchased confirm known empirical data from LIMRA and AHIP (HIAA). Producers sell and buyers accept the importance of 100 percent home health care and the necessity for some form of inflation protection. Although there is no relationship between how much agents sell or, for that matter, how long they've been selling and what they are selling. As far as benefit amount, producers confirm what recent buyers have reported. Nearly half indicate coverage amounts of \$100–\$150 per day. However, producers report slightly more sales of 90-day elimination periods than buyers do. In fact, 28 percent of buyers believe benefit payments will begin as soon as they need it, compared with the 15 percent of buyers that producers surmise.

Another producer study finding that emerges when compared to the buyer/non-buyer data may best be described as over confidence in the benefits buyers believe

they have acquired. For example, 20 percent of buyers said they have an indemnity policy, and yet we know that actually only 10 percent of buyers have this benefit. What may be even more disturbing is that current LIMRA research suggests that more than

half of buyers say their premium will never increase.

The Producer's Perspective on Long Term Care Insurance has begun an important process. We have established a significant base line for an ongoing evaluation.

Understanding and analyzing the continually changing landscape of LTCI sales from the point of view of those who successfully sell this fantastic product will continue to improve our desired market penetration. □

Hagelman

(Continued from page 89)

PRODUCT NEWS

Life Investors

An alternative payment benefit that pays monthly benefits even though no charges are incurred has boosted the sales of LTC Personal Solutions, a long term care insurance policy recently unveiled by Life Investors Insurance Company of America, a Transamerica company.

The alternative payment benefit is available on a first day basis, and premiums are waived while benefits are being received. Benefits begin once eligibility requirements are met. There are no other limitations, meaning informal care can be provided by family and friends, and even outside the United States.

Benefit dollars are sent directly to the insured to use as desired. And because the monthly benefit payment is equal to ten times the maximum daily benefit, payments can last three times longer than if the regular benefit was received each day.

A step-rated benefit increase option that features a lower "going-in rate" and annual increases in benefits has also been added to LTC Personal Solutions. This option offers flexibility because premiums and benefits increase annually until a client decides to stop the increases.

Other features include limited pay plans and extended rate guarantee options (additional premium required). When combined, clients can have a lifetime guarantee. □