**RONALD R. HAGELMAN, JR.**
*CLTC, CSA, LTCP, has been a teacher, cattle rancher, agent, brokerage general agent, corporate consultant and home office executive. As a consultant he has created numerous individual and group insurance products.*

*A nationally recognized motivational speaker, Hagelman currently serves on the LIMRA and Society of Actuaries LTCI committees and is the vice president and education director for the American Association for Long Term Care Insurance, as well as a master trainer for the LTCP professional designation. He is a principal in the agent education company Long Term Care Sales Training Solutions.*

*Hagelman can be reached at Hagelman Consulting, 156 North Solms Road, New Braunfels, TX 78130. Telephone: 830-620-4066. Email:* ***ronjr@satx.rr.com****.*

# The Sky Is Falling *...Or Not*

What is apparently true is that we are currently living through a contracting universe. However, what is more important is why, and what it means.

Carriers continue to withdraw from the LTCI market, and the rationalization for retreat from the battlefield has remained consistent: *It is difficult to make money selling, and claims remain a serious concern.* On the surface this appears to be a fairly straightforward admission of the obvious, but these two perceived demons deserve some additional analysis.

Let me begin by saying loud and clear that the long term care insurance market is in no danger of imminent demise. Some of the largest and most successful entities have publicly clarified this fact by stating: *the need is simply too great and the marketing opportunity remains overwhelming.* Shifting the largest financial risk Americans face from the public to the private sector remains a massive challenge. Some of us actually believe our industry has the moral imperative, professional obligation and inherent responsibility to help "solve" the most serious problem facing an aging America.

**Let's begin with profitability—*or more importantly, the lack thereof.*** According to the data submitted by long term care insurance carriers to LIMRA, it seems to be a 50/50 experience. Apparently, as many companies lose money in the long term care insurance market as those who make a profit. What is more critical, however, is the fact that of those with a profit, only 20 percent actually hit their return on investment. Using this definition, it is possible to count financially successful long term care insurance companies within the confines of ten fingers.

Another important point to remember is that sales success is not a predictor of financial success. The important message is not how much business is written, but how the business is written. There are a number of factors to consider when evaluating how business is written—overly aggressive commission structures, inefficient marketing management and liberalized underwriting concessions.

In my opinion the greatest of these is underwriting mistakes. You simply cannot knowingly buy claims in long term care insurance—there are no exceptions to this rule. This does not mean you cannot price adequately for specific liberalized underwriting strategies, it simply means you cannot make mistakes. Early claims are disastrous to scheduled and anticipated profitability.

At the end of a recent presentation, an agent stood up and explained that he had taken his client to more than one company and was repeatedly declined. He then asked me, "What can I do?"

Before I could stop myself I told him the truth: "Get a new client!" *This is exactly why the sale must be made before there is a change in health.*

There are limited reinsurance alternatives available and they will only support those companies that clearly understand the necessity of absolute underwriting integrity. The companies that adhere to this financial imperative are those companies that appear to experience the greatest profitability. My guess is that successful companies share the above-mentioned characteristics. They hold down marketing costs, provide reasonable commissions, and utilize precise and restrictive underwriting philosophies.

Now let's talk about the proverbial "tail wagging the dog" (i.e., long term care claims). It is necessary that this conversation take place in proper context, as outlined above. The claims will come, but hopefully not until they are expected in 15, 20 or 30 years.

If the business is written properly, the claims will appear as anticipated—in the future. The claim eventuality is exacerbated by two additional concerns. First, persistency is substantially higher than originally predicted and, second, a consumer paying premiums for this extended period of time will eventually use his policy.

The important point is that we know there will be claims—and they will be substantial. The products are priced for this inevitability. The flaw is that we know exactly what a claim looks like and costs today. However, we do not know if we will experience a seismic change in the nature of a long term care claim 20 or 30 years in the future. No one has the benefit of a reliable crystal ball.

Longevity and quality of life will probably be extended, which may push the claim further out; however, the duration and intensity of the higher institutionalized portion of this cost may also increase. Current experience does suggest that incidence is down, yet duration is increasing. It is also true that developments in medical science, particularly in the treatment of various forms of dementia, may dramatically reduce future claims.

The bottom line is, we simply do not know. And it is specifically this unknown that strikes fear in the heart of carriers and reinsurers alike.

In the meantime, let me peer into the palm of your hand and make my own predictions about the future. Some companies will leave the market; other new ones will enter. Sales will continue strong, although not as strong as we would like. However, as the boomers approach 65 over the next two decades, perception of need—and therefore sales—will increase.

**We will find more strategies to increase sales in the workplace market.** The growing army of trained and experienced long term care insurance specialists will continue to enhance sales. Long term care insurance sales will become more and more a "core" practice.

**The good guys will win, the bad ones won't.**