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Careful, Gasoline

In Houston, I have a favorite Mexican restaurant where two-thirds of the floor plan is committed to the bar. Obviously the specialty of the house is their signature margarita, which is served in tall Collins glasses with a flourish and a warning from the waiter, "Careful, gasoline."

Mentioning guarantee issue and long term care insurance in the same sentence appears to be approached with the same caution. Over the years I have had numerous conversations at home offices concerning the efficiency of liberalizing underwriting up to and including the infamous guarantee issue. It is usually at this point underwriters make the sign of the cross, pull out the garlic strands and hide under the desk. Actuaries immediately wrap themselves in the holy robes of "adverse selection" and the real decision-makers begin to question my sanity.

I would like to propose that not only is guarantee issue possible, it is necessary. To suggest that 2004 long term care insurance production was disappointing could best be described as a cosmic understatement. According to LIMRA, 2004 individual new sales were down 25 percent, the largest decline since that organization began tracking sales in 1988. Employer-sponsored group sales in 2004 declined by 73 percent.

Although in-force numbers continue to grow, there is a lingering suspicion that what we are doing is not working. Don't misunderstand—the boomer age wave demographics will crash upon us and our best selling years are yet to come.

Perhaps 2004 was an aberration—I believe it could best be described as a "loss of faith." Carrier retreat, rising rates for both in-force and new policy forms, continuing consumer intransigence, and weariness of the battle among long term care insurance

producers all coalesced in a year in which the industry paused, reflected and then again staggered forward. *We need to admit to ourselves the nature of our limited success and perhaps at least consider a radical departure from business as usual.*

We have in truth done a fairly good job of selling expensive policies to younger, more sophisticated, better-educated Americans with money. We have learned that the most popular policies with advanced pay strategies, lifetime benefits and compound COLA are not only the most expensive, they are also the most difficult for companies to reserve adequately.

In partial response to the ongoing mystery of why we can't achieve sufficient market penetration, there has been a new and rising chorus of voices—both actuarial and marketing—who claim to have the answer. What is being suggested is that less is more. That it may be inherently better to sell benefits short and fat instead of long and thin. As recently reported in a Milliman claims analysis, three-year benefits appear to be quite adequate. While there may actually be profound truth in the growing popularity of this theory, I can safely say that reducing commissions by more than half on individual sales will not increase production. *(Again, please note my opinions appear in the commentary section of the magazine.)*

As Monty Python used to say, "And now for something completely different." Healthcare is delivered in America at the place of employment. Post healthcare security must be delivered in the same way. A comprehensive multi-life marketing approach with a sales progression that begins with executive carve-out, which is then followed by an employer-paid "core" benefit sale. This employer-sponsored combination creates the most favorable environment for employee

and spouse buy-ups. This, in conjunction with the endorsed group discount, creates the environment for the most important sales, particularly to the employer; and then corollary sales to parents, in-laws and grandparents. This comprehensive marketing approach is the answer to achieving our desired market penetration.

The gasoline that needs to be thrown on this fire is liberalized underwriting including guarantee issue strategies. Voluntary sales rise dramatically in a situation where the employer is a "believer." Sales will increase when the employer has acted not just to add another benefit but also to protect against a direct financial risk.

Guarantee issue of all eligible employees at a fairly small group size is not a pipe dream. There are actuaries who believe it

is possible and safe. This is accomplished by compounding a number of factors. Beginning with the obvious, lower solicitation, administration and underwriting cost. One hundred percent participation and "actively at work" further reduces the effects of potential adverse selection. Persistency provides the greatest contribution to the ability to dramatically improve underwriting. Early reported results from those employees leaving work and exercising their portability privilege suggests an extremely high lapse rate. In addition to a high lapse rate, the employer has the greatest control of the lapse, as the payor for the core benefits. Benefits are not vested. Employer-paid coverage is also governed by employee termination, which controls the decision-making process to maintain coverage. Employee

turnover, age at turnover and duration at turnover also contributes to lapse rates.

The boomers have focused a giant spotlight on our industry. I believe we have an obligation to do everything in our power to shift this massive impending risk to the private sector. It is at the worksite that we have the best opportunity to fulfill our industry's responsibility.

Guarantee issue of smaller core benefits to eligible employees is possible and required.

That restaurant in Houston is also in the heart of the business district. Those margaritas have influenced many business transactions. I always listened to the waiter's admonition, smiled and continued my business conversations. I look forward to my next trip to Houston. 🌎