

Learning Objectives

An understanding of the material in this chapter should enable the student to

1. Identify the eight steps of the selling process.
2. Explain the principles of client-focused selling.
3. Define LTC.
4. Describe the relationship between the components of the LTC crisis.
5. Identify who will need LTCI based on financial and emotional motivations.
6. List the three age-based market segments.

THE SELLING PROCESS

Welcome to the *Essentials of Long-Term Care Insurance*, a book designed to teach you how to market and sell long-term care insurance (LTCI). It assumes you have general marketing and selling skills for insurance and financial products.

selling process

In this book, LTCI is discussed within the framework of the universally recognized components of what is generically referred to as the *selling process* or "sales cycle." In this regard, it is appropriate to provide an overview (and for some of you a review) of the selling philosophy and selling process that provides the underlying framework for our discussion of LTCI.

Selling Philosophy

A selling process is based on a selling philosophy. Over the years, many authors have written about selling the "right" way. In doing so, they have used many terms to describe the "right" way: relationship, client-centered, counselor, consultative, needs-based, values-based—the list goes on. Each is based on the same basic principles of communication: asking good

questions and listening carefully to people. The end goal is the same: to cultivate a long-term, mutually beneficial relationship with a client. For our purposes we will refer to this selling philosophy as client-focused selling.

client-focused selling

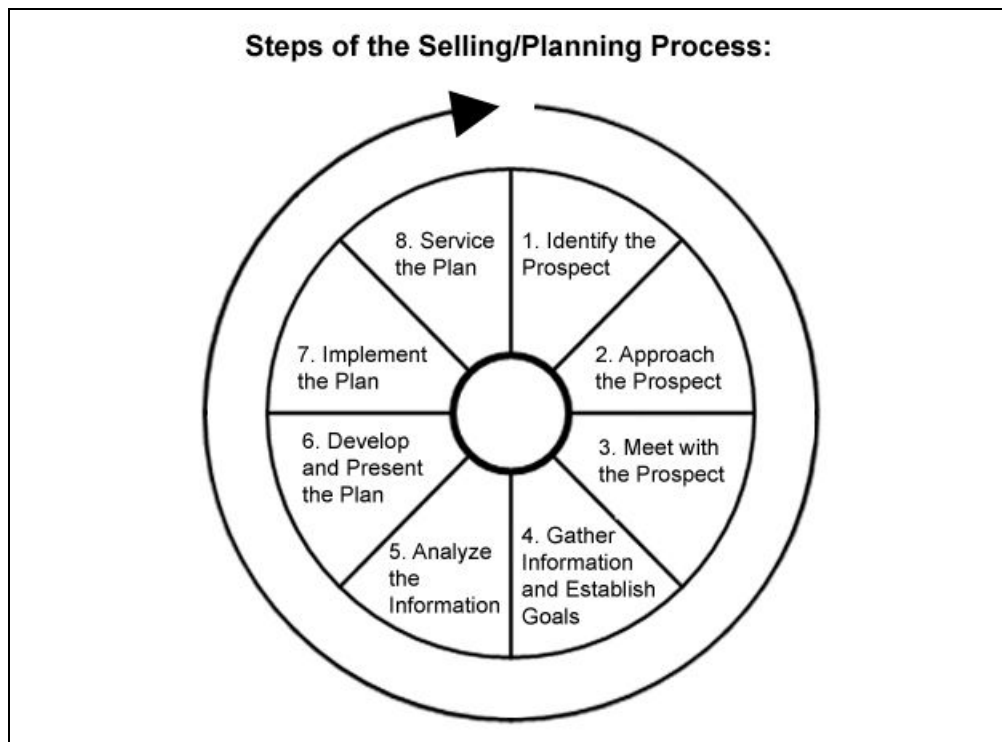
Client-focused selling stresses that a financial advisor's job is to help people achieve their objectives by providing solutions to their insurance and financial needs in an open, honest, ethical and forthright manner. The process focuses on helping people achieve their goals by removing obstacles and presenting strategies that lead to success. It is founded on the premise that people want to feel that they bought a product they need, will help them, and has personal value. People like to buy. They do not like to be sold.

Compare such ends and means with the "commando" approach of high-pressure, exaggerated pitches, arm-twisting, and manipulative closing techniques. The main objective of such a process is to get the sale at all costs. It is transaction-oriented and results in an adversarial advisor-client relationship, pitting the advisor against the client. Transactional selling is an endless series of one shot deals and poor service, if any at all. The transaction-selling mantras, "the sale begins when the prospect says no" and "close early and often" reflect this combative relationship. The financial advisor must outthink, outmaneuver, and outtalk the prospect to make the sale.

On the other hand, the client-focused selling approach is a win-win situation. A sale should not be a victory for the advisor alone, but for everyone involved. People deserve to work with a reliable, trustworthy professional who has their best interests in mind. When they are able to do so, they view their financial advisor as a trusted professional. Consequently, the advisor will receive repeat business, referrals, and increased persistency. Client-focused selling will elevate the sales experience for both the advisor and the client, as well as the status of and respect for the insurance and financial services industry. In the LTCI marketplace, there is no other way to proceed.

Eight-Step Selling Process or "Sales Cycle"

This book divides the selling process into eight steps. Think of the selling process as a blueprint for building clients. Adhering to the selling process enables you to organize your marketing and selling efforts so you can develop a systematic approach rather than a haphazard one. Systems enable you to duplicate success and equally important, to analyze failure.



1. Identify the Prospect

prospect

Effective selling begins with getting in front of the right prospect. A *prospect* is someone you have identified as a potential buyer. Not only do you want to look for prospects who have a high probability of needing, wanting, and affording your products; you should also be aware that LTCI requires a higher emphasis on the insurable aspect of a qualified prospect. As always, when prospecting outside your current client base, you will want to find people who will value your expertise and become a source of repeat business and referrals. A systematic approach can help you find target markets of potential clients and enable you to market efficiently and effectively.

2. Approach the Prospect

This step involves getting appointments and can be done either by telephone or face to face. If you are cultivating relationships, you will generate more referral-based business. With the negative feelings people have toward telemarketers, as well as the "Do Not Call" legislation rules, cold calling is

becoming more difficult and, consequently, referrals have become much more critical.

3. Meet the Prospect

This is where you establish rapport, explain your business purpose, ask some thought-provoking questions, and listen, listen, and listen. The importance of listening cannot be overstated; it is essential when building any relationship. Gain the prospect's agreement to let you proceed with the information-gathering process by distinguishing yourself from the competition.

4. Gather Information and Establish Goals

When you think of the word *interview*, you think of someone asking questions of someone else. That is exactly what you want to do with your prospect. Questions help you uncover the prospect's needs, goals, priorities, and attitudes. It is good to discover as much about the prospect's financial and attitudinal landscape as you can.

The key skills in the interviewing process are:

- questioning—Ask open-ended questions to probe for needs, goals, priorities, and attitudes. Ask confirming questions to clarify.
- listening—Actively listen, rephrase, and reflect to ensure that you and the prospect are on the same page.
- uncovering—Provide information or ask open-ended questions designed to help the prospect see the reality of the situation. Be fair and honest, not manipulative.
- taking notes—Jot down numbers, goals, needs, priorities, and feelings.
- summarizing—Review what the prospect has told you and confirm that you have clearly understood him or her.
- acting—Agree on a proposed next action.

5. Analyze the Information

Once you have a good idea of the needs, goals, priorities, and attitudes of the prospect, analyze the concepts and products you have that might best fit the prospect's situation. Organize these into a plan—no matter how basic or sophisticated, it is an insurance plan. If your product does not fit properly, send the prospect to someone else who can provide what is needed. Because you focus on the long-term relationship, the prospect may not do business with you today, but he or she will remember that you were

honest even when it meant you did not write the business. People want to do business with those they trust.

6. Develop and Present the Plan

Position your product based on the information gathered in the interview. Cover only relevant features and benefits at this point, not every feature and benefit. Confirm throughout the presentation that the prospect understands and is in agreement so you can address any questions or concerns that arise. Immediately deal with any miscommunication or misunderstanding.

7. Implement the Plan

Help the prospect acquire the financial products and services required to put the plan into action. Ask if the prospect has further questions or concerns. If so, address them immediately. Then propose the next steps and secure permission to go forward.

Complete the application and all other required forms; secure all necessary signatures on these forms, perform all field underwriting requirements that are needed, and submit the case to the company. Advise the prospect of the time frame and any responsibility he or she may have (such as having a medical exam or securing contact information for doctors or medical facilities). Use this opportunity to proactively discuss situations that might result in a rating or denial of coverage. If a rating or denial is a **very** real possibility, prepare them for this (reinforcing why you are applying for LTCI with that particular carrier as the first and best planning method). Next, mention "Plan B", if there is one, as the next course of action. With a "difficult" case, the point is to try for the best, but have the client prepared to go to an alternate course of action and not give up in disgust if the underwriting decision is an adverse one.

8. Service the Plan

Once the insurance contract has been approved and issued, one might think the agent's job is done. The work ahead, however, is what will make the insured feel good about his decision to purchase coverage and about you as a trusted professional. This is what will set you apart from the competition.

At contract delivery, review the benefits the policy is providing and how they resolve the applicant's problem. You may be required to secure signatures on Delivery Receipts or on Acknowledgments of any change in coverage (due to underwriting requirements). In addition, signatures on addendums may be required to include any missing information on the application form

that was uncovered during underwriting. You may also have to collect any outstanding premium balance due before releasing the contracts. Reinforce the concept of an insurance plan and the need for monitoring the situation to ensure that the client remains properly insured as time passes and life changes. You can do this by offering a periodic review, annually or at some other agreed-upon time frame.

Servicing the plan through the coming years may be the most important step in preserving your hard work and expanding on it. Through service you enhance and cement your relationship with each new client, make additional sales, and set the stage to obtain quality referrals to new prospects. In contrast to life insurance sales, you will have ongoing contact with your clients and their families during the claim period. You will also have an opportunity at the periodic reviews of coverage to reinforce their positive feelings about you as trusted advisor and about their insurance plan.

Significance of the Eight-Step Process

No matter what insurance or financial service product you sell, the basic selling (or planning, if you prefer) process is universal. Following the selling process ensures that you duplicate success and enables you to diagnose failure because you have clearly defined what you want to accomplish at each step and how you will do it.

THE NEED AND OPPORTUNITY

The headline of a March 21, 2002 news release from the U.S. Senate's Special Committee on Aging bears the title, "Sen. Breaux Warns of National Long-Term Care Crisis." Senator Breaux's use of the word crisis in association with long-term care (LTC) is something with which many Americans are beginning to identify. The country's collective awareness is growing and many people approaching retirement would at least like to prevent the LTC crisis from personally affecting them. Unfortunately, the awareness of the need does not make the solution self-evident. People need your professional advice and, sometimes, a little motivation to buy the LTCI policy that will meet their needs.

The purpose of this section is to provide enough information for you to picture the opportunity that exists for financial advisors who sell LTCI. It begins with an overview of LTC and is followed by a discussion of the factors involved with the impending LTC crisis, namely

- the increasing need for LTC services
- the decreasing ability of families to provide care
- the high cost of care
- the lack of viable options to pay for care

The section ends with a brief overview of the possible markets for prospects.

What Is LTC?

long-term care (LTC)

The definition of LTC seems to have grown more complex over the years. Because of the public's misconceptions about LTC, it is important to emphasize that LTC is not simply nursing home care. It is much more than that *LTC* can best be defined as the broad range of skilled, custodial, and other care services provided over an extended period of time in various care settings due to a chronic illness, physical disability, or cognitive impairment. Closely examining this definition will help you to understand and explain LTC to your prospects and clients.

Skilled, Custodial, and Other Care Services

LTC can require any one or a combination of the following types of services: skilled, custodial, and other services.

skilled care

intermediate care

Skilled. Skilled care services imply that the supervision of a physician is required to direct the care provided by skilled, licensed health care professionals, such as registered nurses, licensed practical nurses, and therapists. This could be delivered on a 24-hour around-the-clock basis or for just a limited number of hours each day. Skilled care delivered on an intermittent basis is sometimes referred to as *intermediate care*.

custodial care

activities of daily living (ADLs)

instrumental activities of daily living (IADLs)

Custodial. *Custodial care* (or personal care) services include assistance with the *activities of daily living (ADLs)* or *instrumental activities of daily living (IADLs)*. ADLs are those activities geared toward the care of bodily needs that enables an individual to live independently. They include bathing, dressing, toileting, eating, transferring, and continence.

On the other hand, IADLs deal more with one's overall ability to function cognitively and to live independently in the community. *IADLs* include

ancillary activities such as preparing meals, shopping, cleaning, managing money, taking medications, and using transportation.

Custodial care can usually be provided without professional medical skills or training. Family members often provide custodial care at home, but this care can also be provided by paid aides in the home or by the staff of an assisted living facility or nursing home.

other care services

Other Care Services. The realm of services provided under the auspices of LTC has broadened beyond physical and medical needs. One example is *social care*, which is aimed at preventing the loneliness and isolation that

social care

a person requiring LTC often experiences. Also included are the services that are required in order to adapt the home to the care recipient's needs. Examples of adaptations would include

- bathroom balance bars
- widened doorways and ramps for wheelchair access
- improved lighting
- nonslip flooring
- phones with amplification capability and larger buttons

Provided over an Extended Period of Time

acute care

Generally speaking, LTC is associated with chronic illnesses and disabilities. This means that it excludes *acute care* services. Acute care can be thought of as an emergency intervention or treatment that is typically brief and intense in nature. The reasonable assumption is that after the person has been successfully treated he or she will return to his or her previous state of health and level of function. Acute care is provided by a hospital or by a medical professional in an outpatient setting. Many times it involves an intensive care unit and, obviously, requires professional medical attention. Examples of conditions requiring acute care include a broken hip, severe pneumonia, or a heart attack.

cognitive impairment

Alzheimer's disease

Long-term care, on the other hand, involves helping individuals cope with physical impairments that may not improve over time and may, indeed, increase in severity. It also includes supervision and care of individuals who have a cognitive impairment. *Cognitive impairment* may be defined as a deficiency of a person's mental faculties such as his or her

short- or long-term memory, deductive or abstract reasoning, or judgment. Individuals who suffer from a cognitive impairment may need supervision to prevent their wandering off and harming themselves or others. They also may need assistance with ADLs. Cognitive impairment would include certain forms of dementia. For example, *Alzheimer's disease* is a form of dementia that results in a progressive deterioration of a person's mental faculties.

Various Care Settings

care settings Unfortunately, LTC was once synonymous with nursing home care only. But the *care settings* for LTC have evolved as technology, services, and market demands have dictated. Now care can be provided in a variety of care settings, including

- skilled-nursing facilities, such as a LTC facility or a nursing home
- residential facilities, such as an assisted living facility
- community-based facilities, such as an adult day center
- the home of the person receiving care

Some levels of care might require staying in a specified facility, such as a skilled-nursing facility. For example, skilled care that requires medically necessary, 24-hour physician-directed care might be provided in a skilled-nursing facility in a much more cost-effective manner than attempting to receive these services in one's home. However, skilled care provided on an intermittent basis might be more reasonably delivered in the recipient's home.

Impairment and Illness

Cognitive impairments, physical disabilities, and chronic illnesses associated with aging (such as Alzheimer's disease and arthritis) are the reasons people typically need LTC. But many people require LTC services because of a disability caused by an accident or a stroke—something that could happen to anyone at any age.

The Increasing Need for LTC Services

Whether or not Senator Breaux and his congressional colleagues used the word *crisis* for political reasons, the fact is that the need for LTC will only increase—very likely dramatically—for the foreseeable future. Let us examine the most prominent factors: the relationship between LTC and aging and the changing demographics.

The Relationship Between LTC and Aging

Despite the fact that many people under the age of 65 require assistance with daily living due to physical or cognitive disabilities, the greatest single predictor of the need for LTC is advancing age. This is due to the gradual and inevitable decline in physical and mental abilities that usually occurs as one ages. Consider the following often-quoted statistics:

- Approximately 19 percent of Americans older than 65 need assistance with every day activities. The number increases to about 55 percent for those older than 85.²
- About 88 percent of all nursing home residents are aged 65 or older.³
- More than half of the nursing home residents over age 65 are actually age 85 or older (51 percent).⁴

The direct correlation between aging and the need for LTC is the central ingredient for the LTC crisis. This is a fact that medical advances have done very little to change.

Changing Demographics

In light of the direct correlation between aging and the need for LTC, consider the following demographic changes.

Longer Life Spans. People are living longer because advances in medicine and nutrition have developed preventions, cures, and treatments for diseases and conditions that once were fatal. Consider that the average life expectancy in 1900 was 47 years; in 2000 it reached 76.9 years. Perhaps more significantly, today people who survive to age 65 can expect to live to age 83. In 1900, they could have expected to live only to age 68.5. Unfortunately, while medical advances mean people will live longer, such advances have not done as much to improve the quality of life during these later years.

2. Congressional Budget Office *Financing Long-Term Care for the Elderly*, April 2004, Summary, page 1.

3. Centers for Disease Control and Prevention. *2004 National Nursing Home Survey*. Residents, Table 8. taken from http://www.cdc.gov/nchs/data/nnhsd/Estimates/nnhs/Estimates_PaymentSource_Tables.pdf; November 1, 2009.

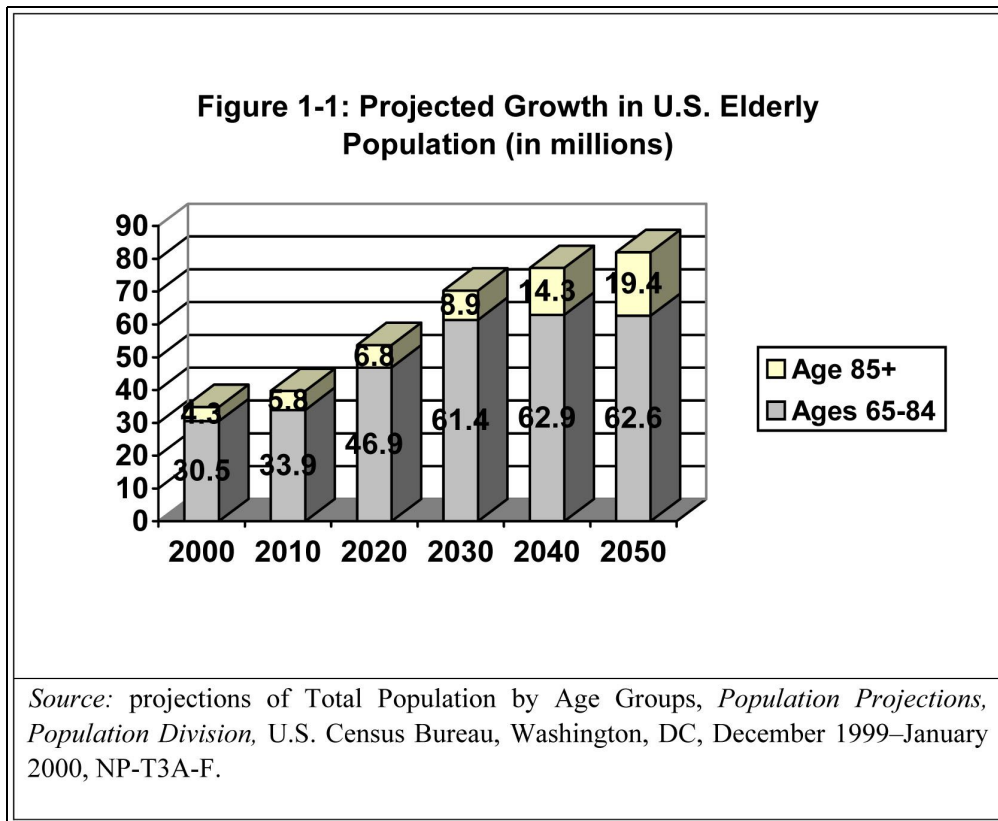
4. Ibid.

Thus, there are more people reaching advanced ages in which dependency on others is more prevalent. As life spans increase, the length of time people will need LTC due to such dependency will almost certainly increase as well.

Life Expectancy		
At Birth	Men	Women
1950	65.6 years	71.1 years
1980	70.0 years	77.4 years
2006	75.1 years	80.2 years
At Age 65	Men	Women
1950	12.8 years	15.0 years
1980	14.1 years	18.3 years
2006	17.0 years	19.7 years
At Age 75	Men	Women
1980	8.8	11.5
2006	10.5 years	12.3 years
Source: National Center for Health Statistics. Health, United States, 2009: With Special Feature on Medical Technology, Hyattsville, MD. 2009.		

Baby Boomers. The baby boom generation, whose oldest members started to take early retirement in 2008, are swelling the population in these age categories significantly. A few statistics using the population projections in the following figure make the case.

- In the year 2000, there were approximately 35 million people over age 65, constituting 13 percent of the country’s population of 275.3 million. By 2030, when the last of the baby boom generation (those born between 1946 and 1964) turns age 65, there will be 70 million seniors constituting 20 percent of the population (351.1 million).
- Individuals aged 85 and older constitute the fastest growing segment of the senior population and are expected to increase from 4.3 million or 1.6 percent of the population in 2000 to almost 9 million by 2030, when they will represent over 2.5 percent of the population.
- By 2050, when the full effect of the baby boom retirees is felt, the age 85-and-over category will exceed 19 million and comprise almost 5 percent of the population (403.7 million).



Increased longevity already means that more people will reach ages that will require LTC. The baby boom phenomenon will further accentuate this due to the sheer numbers of those associated with this demographic group. The bottom line is that more people will require LTC in the not-so-distant future, and require it for a longer period of time.

The Decreasing Ability of Families to Provide Care

How is society positioned to handle this increasing need? Currently, family members provide a great deal of LTC for their elderly relatives, often at considerable personal sacrifice. Immediate family members, other relatives, and friends render approximately 70 percent of LTC in the home. This care would cost over \$375 billion per year if provided by paid caregivers and would constitute the main source of seniors' long-term care financing.⁵ In addition, these caregivers spend billions of dollars of their own money in the process

5. AARP Public Policy Institute, *Valuing the Invaluable: The Economic Value of Family Caregiving*, 2008 Update.

of providing care; total out-of-pocket payments for long-term care made by care recipients and their families exceed \$44 billion per year.⁶ This does not take into account the billions of dollars in lost wages and opportunities that caregivers forfeit because they are no longer able to work outside the home.

Regardless of the personal cost, informal caregivers will continue as a principal source of LTC both because of the very high total cost of formal care services and also because families prefer to care for their elderly relatives. However, it is becoming more difficult for families to provide that care at the very time the need for LTC is increasing. Limits arise from demographic, social, and economic factors that can be categorized under the headings of availability and capacity.

Availability

Compared to previous generations, family members are simply less available today to meet the needs of their elderly parents and relatives because of the increased participation of women in the paid workforce, lower birth rates, and the geographic dispersion of families.

Increased Participation of Women in the Paid Workforce. Women have been and continue to be the major providers of LTC services in the home. However, their availability has become restricted because of their increased participation in the paid workforce. Due to economic necessity, the desire for a higher standard of living, and/or the pursuit of their own careers, a majority of women have made their careers a priority. Regardless of the motivation, the hours spent at work are unavailable for caregiving and this precludes the possibility of providing assistance to a parent who needs continuous care, thereby requiring the need for professional care at home or in a facility. But many women (and men) with jobs outside the home still provide part-time care to elderly parents. Indeed, about 59 percent of family caregivers are employed, either full-time or part-time. Sixty-two percent of these workers report having had to make some work-related adjustments, such as coming into work late.⁷

Lower Birth Rates. Unlike the baby boom generation, today's average family is smaller and there are fewer large families. Because of the cost of

6. *The Economic Value of Informal Caregiving*, Arno, P.C. Levine, and M. Memmot, 1999, Health Affairs 18(2), pp. 182-188.

7. *Caregiving in the U.S. 2005*, National Alliance for Caregiving in collaboration with AARP, funded by MetLife Foundation, <http://www.caregiving.org/data/04execsumm.pdf>

living, standard-of-living concerns, and marriages later in life, people are having fewer children. In addition, there are more childless families and more people are remaining single. As a result, today's aging parents have fewer children to look to for their care than in previous generations.

Geographic Dispersion of Families. Family members are dispersed geographically to a greater extent than in previous generations. Sons and daughters, brothers and sisters often leave the area in which they grew up when they marry or they relocate to take advantage of employment and career opportunities. To the extent they are dispersed geographically, family members are unavailable to care for elderly parents or other relatives.

Capacity

A caregiver's capabilities, a family's situation, and the condition of the family member being cared for may limit the capacity of family members to provide LTC. These capacity limitations frequently arise from multiple priorities, increased longevity, divorce, and the required necessary medical technology.

Multiple Priorities. Even when family members are available, they often face multiple priorities that restrict their ability to provide care. The caregiver may have a spouse or children who also have a claim on the caregiver's available time and attention. Financial priorities may also conflict if the family caregiver must pay for a portion of a parent's LTC expenses while meeting his or her own financial obligations for retirement and child education.

Increased Longevity. Longevity makes it difficult to predict the availability of family support. An extended life span leaves a greater proportion of older people requiring support from a younger but aging generation. Thus, family members are increasingly reaching an advanced age where they find themselves responsible for their frail spouses and/or their 90 plus-year-old parents. At this period in their lives, they could easily be unable to provide the extent of care required by the age and condition of their loved ones and because of both the type of care required and their own declining capabilities. In addition, a retiree's limited financial and other resources can easily be insufficient to support a disabled spouse or parent, especially if medical care or other expensive services are needed.

High Divorce Rates. There are several ways in which divorce can restrict the capacity to provide informal care. Not surprisingly, a person is more likely to care for the parents of a spouse than for those of his or her

ex-spouse. Aged divorced persons, especially fathers, are less likely to receive care from their adult children. Stepparents are only half as likely to receive care from their stepchildren as are parents of natural children. Single parent families, often created by divorce, have lower incomes on average than dual-parent families and are often below the poverty level. They are, consequently, less able to assume the burdens of or contribute to the care of a parent or other relative.

Required Necessary Medical Technology. The level of assistance a family provides for an elderly relative at the initial stages of a chronic condition may be nothing more than occasional visits to check on or observe routine activities and provide assistance when needed. Inevitably, the initial level almost always escalates to the point of requiring continuous care with major responsibilities for a broad range of needs. At some point in the future, available medical technology to improve nutrition, provide therapy, and prevent infection may be required even if the care setting has remained in the caregiver's or recipient's home. While the family member may continue to provide custodial care, the use of the medical technology may require professional assistance one or more days a week.

High Cost of Care

The out-of-pocket payments for LTC by people who must pay their care from personal resources can be astronomical. Currently, average annual nursing home costs are approximately \$72,270 for a semi-private room (approximately \$79,935 for a private room) and can range much higher.⁸ The average length of time for all residents since admission in a nursing home was 835 days (2.29 years) in 2004; the median in days was 463.⁹ The American Council of Life Insurers puts the average national cost of a nursing home at \$75,000 and estimates this figure will reach \$207,000 by 2030. Visits from a home health aid to help with bathing and dressing and household chores can easily cost \$2,700 per month.¹⁰

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8. MetLife Mature Market Institute. *MetLife Market Survey of Long-Term Care Costs*. October 2009, The MetLife Mature Market Institute in conjunction with LifePlans, Inc., p.4.
 9. Jones AL, Dwyer LL, Bercovitz AR, Strahan GW. The National Nursing Home Survey: 2004 Overview. National Center for Health Statistics. *Vital Health Stat* 13(167). 2009.
 10. American Council of Life Insurance, *Long-Term Care Insurance: Protection for Your Future* taken from the American Council of Life Insurance Web site at www.acli.org.

With the number of people requiring LTC projected to double by 2030 and the number of health care workers shrinking in recent years, costs could be expected to rise significantly.¹¹

Few Viable Options

The rising costs are not a problem so long as there are viable sources of money to pay for the needed care. Now we will look at three major classifications of these sources: personal resources, government programs, and LTCI. You will cover each of these alternatives in depth in later chapters. What is important to note here is how well any of these options can handle the LTC problem.

Personal Resources

Personal resources (out of pocket) include income, savings, and assets that comprise one's personal or family wealth. The single question most relevant to personal resources is whether they can pay for all LTC expenses often incurred at unanticipated times and for an extended or indefinite period at the levels mentioned previously. Statistics indicate that 50 to 75 percent of all couples are impoverished within one year after one of them enters a nursing home. Only 15 percent of Americans can afford to pay for more than a 3-year nursing home stay at today's rates.¹² Even if personal wealth is sufficient to meet expenses for a specific episode of LTC, the adequacy of the remaining resources to maintain a spouse's or family's desired standard of living and leave an estate to be passed on to heirs must also be considered.

Benefits from traditional forms of life and health insurance may also be used under certain circumstances to pay for LTC services. However, these benefits are limited in both the amount and the situations in which they are available.

Government Programs

Medicare, Medicaid, and veterans' benefits are frequently cited government sources of payment for LTC services.

Medicare

Medicare. Medicare is a medical expense insurance program for people aged 65 or older, people with

11. Mulvey, Janemarie and Li, Annelise. Long-Term Care Financing: Options for the Future. Benefits Quarterly, Second Quarter 2002, p. 7.

12. The John Hancock/National Council on Aging 1997 *Long Term Care Survey*, prepared by Matthew Greenwald and Associates, Washington, DC, Report of Findings, page 15.

disabilities under age 65, and people with end-stage renal disease (permanent kidney failure that requires dialysis or a transplant). Medicare provides coverage for acute hospital, surgical, and physician care but pays only limited benefits for the expenses of LTC. These benefits do not extend to custodial care unless this care is needed along with the medical or rehabilitative treatment (post-acute skilled care) provided in skilled-nursing facilities or at home. Unfortunately, Medicare's limited coverage of post-acute care services in a skilled-nursing facility and payment of home care services often gives the mistaken impression that Medicare provides payment for custodial LTC services required by the elderly with chronic conditions.

Medicaid

Medicaid. *Medicaid* is a federal-state funded entitlement program that is designed to provide medical assistance for individuals and families with low incomes and resources. Unfortunately, it has also become the de facto program for funding LTC for the middle class as well. This is why Medicaid is the largest source of payment for LTC services, covering 43 percent of all LTC services provided. It is also why a cottage industry of Medicaid attorneys and specialists has emerged to assist middle class clients in hiding assets in order to qualify for Medicaid's eligibility standards. Although the passage of recent legislation has eliminated many of the Medicaid eligibility loopholes, many Medicaid "planning opportunities" still exist.

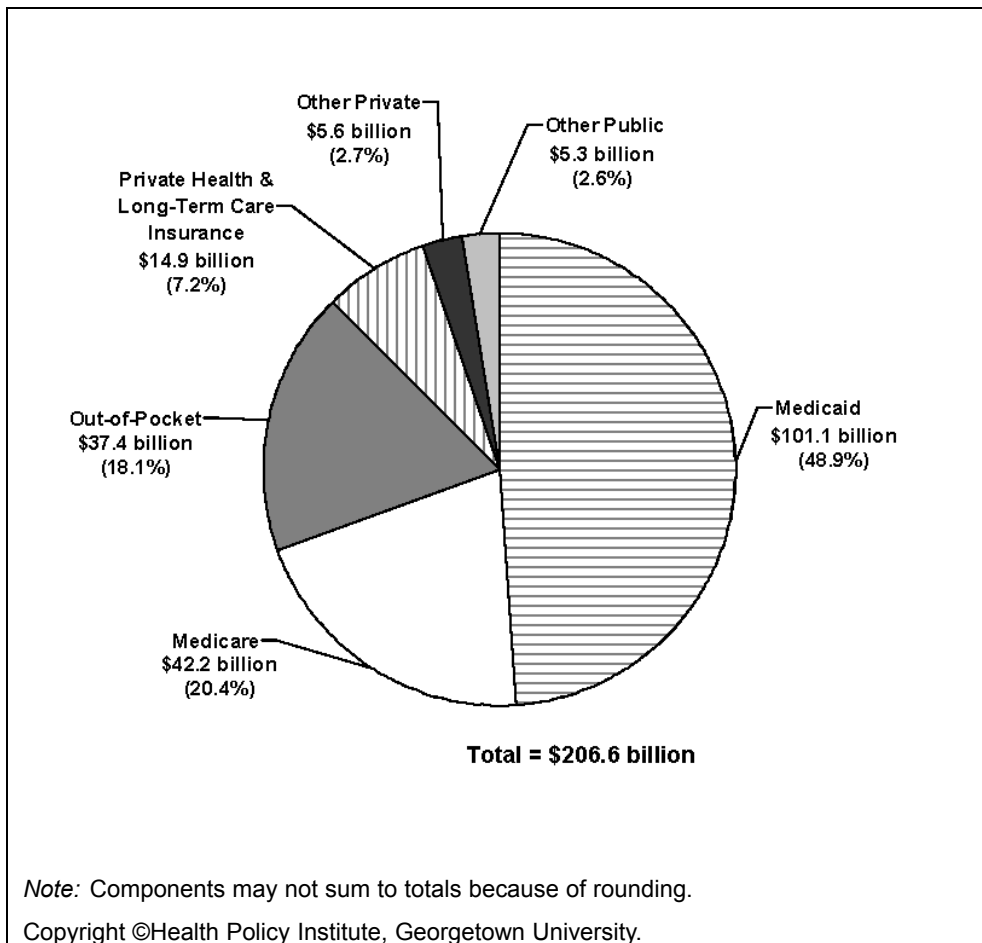
Medicaid is straining under a burden it was not designed to bear. It is one of the reasons that Medicaid does not pay a LTC facility full market value for a bed. Thus, many Medicaid-approved LTC facilities only carry the required minimum number of Medicaid beds. The result is a waiting list for those potential residents who will pay via Medicaid. Factor in the scores of baby boomers on the edge of needing such care and their current lack of planning for private financing of their future LTC needs and you have the potential for a real crisis for both the public program and its originally-intended poor beneficiaries. Steve Moses at The Center for Long-Term Care Financing put it this way: "...Medicaid will have nowhere to turn when the demographic tsunami hits."¹³

On February 8, 2006 the Deficit Reduction Act of 2005 was signed into law. Three major sets of provisions were contained in this Act which pertain to long term care. Included in these provisions were major changes which

13. Moses, S. The Center for Long-Term Care Reform; *Policy Analysis No. 549*; Cato Institute; September 1, 2005

restrict the transfer of assets in order to qualify for Medicaid, making it more difficult for those with means to artificially impoverish themselves in order to receive Medicaid benefits for long-term care. Another of the major provisions concerned the ability for more states to launch Long-Term Care Insurance Partnership Programs.

Figure 1–1 National Spending for Long-Term Care, by Payer (2005)



Veterans' Benefits. The Veterans' Administration (VA) may provide limited nursing home benefits for veterans in one of its own facilities or private nursing homes. Service-connected disabilities and illnesses or low income are eligibility requirements for admission to VA nursing homes. Entrance is further dependent on available space. Use of private nursing homes is possible upon discharge from a VA facility, but is normally not provided in excess of 6 months, unless service-related care is required. Direct admission

to a private nursing home is almost always limited to someone receiving care for a service-related condition.

Long-Term Care Insurance

long-term care insurance (LTCI)

Finally, there is long-term care insurance (LTCI). It is a form of insurance that provides coverage for personal or custodial care and skilled care in various settings.

These settings may include nursing homes and private homes as well as adult day care centers and assisted-living facilities. Benefits can vary by setting and types of care received. In addition, benefits are paid either as a reimbursement of expenses incurred, usually up to a daily/monthly maximum, or as a defined dollar amount. There are currently over 7 million lives insured with LTCI policies, according to information collected by the National Association of Insurance Commissioners (NAIC) and made available in their 2008 Long-Term Care Experience Report. In addition, the LTCI industry has paid out over \$42.7 billion in claims over the years.¹⁴ For many people, it is the best option for meeting the cost of future LTC expenses. And you will do them a great service if you help them buy a LTCI policy.

Who Will Need It?

In this section we will identify some issues related to prospect needs and then review some market segments. The information discussed here will help you get started in identifying some prospects.

Financial and Emotional Needs

The older one gets, the greater the probability he or she will need LTC. According to the National Clearinghouse for Long-Term Care Information (www.longtermcare.gov), approximately 70% of those over 65 will need some long-term care services during their lifetimes. However, needing LTC does not directly correspond to needing LTCI. Some will not have enough assets to warrant LTCI and others will not have a strong enough emotional reason to buy it. As with other insurance products, the LTCI "need" has two aspects: a financial one, and, to a greater degree, an emotional one. Specifically, the need depends greatly on how the prospect perceives the financial and emotional aspects of LTC.

14. NAIC data reported by the American Association for Long-Term Care Insurance, *The 2009 Sourcebook for Long-Term Care Insurance Information* (Westlake Village, California: January, 2009).

Financial Needs. The financial reason for purchasing LTCI is to protect a person's assets. But not everyone has viable assets to protect. The NAIC in its publication, *A Shopper's Guide to Long-Term Care Insurance*, specifies suitability guidelines of \$30,000 in assets (not including primary residence) and that LTCI premiums not exceed 7 percent of monthly income.

Buyer's Perspective on LTCI

Author's Note: The following excerpt from the June 27, 2002 article, Navigating the Maze of Long-term Health Insurance.

Source: The Associated Press.

Marian and Rubin Ferziger:

For Marian Ferziger, a 57-year-old New York accountant, the decision to buy her own long-term care policy came after her mother-in-law applied for one in her 80s and was turned down. "It turned out she had a health problem that hadn't been diagnosed," she said. "It was found during the (qualifying) physical. She's doing fine, but she was turned down for coverage." Ferziger and her husband, lawyer Rubin Ferziger, 53, figured that because they were in good health, they should consider getting their own coverage. They had a broker show them a number of policies. They also used the insurance planner available from Weiss Ratings Incorporated, a Palm Beach Gardens, Florida firm that evaluates policies and the companies that offer them.

"I feel better having it," Marian said. "If I get sick, I don't want to eat up all of our assets so Rubin has nothing. The reverse is true, too."

The baseline for suitability is not too difficult for many people to meet at younger ages. For example, if the average LTCI premium with inflation protection for someone between the ages of 45 and 54 is \$1,760 per year, a person with an annual income of \$26,000 and \$30,000 in assets (excluding primary residence) would meet the suitability guidelines. In contrast, if the average premium at the age range of 65 to 74 is \$2,875 per year, the annual income guideline increases dramatically to about \$41,000, a more difficult standard to meet. Your company's guidelines may be more stringent (higher requirements), in which case use your company's guidelines.

You will want to derive your own guidelines based on your natural and target markets, the cost of living in your geographic area and your own personal convictions. These guidelines should also not remain stagnant but should reflect inflation that is occurring in the real world.

emotional needs

Emotional Needs. Buying LTCI is more than a financial decision; it is an emotional one as well. Therefore, it is

necessary to examine the motives behind the purchase. These are the real reasons people buy LTCI and by understanding them, you will have a great deal of success in selling LTCI and helping people protect themselves from a potential financial catastrophe. People need LTCI because:

- *They desire independence.* For some buyers, the purchase of LTCI means they do not have to depend on anyone else for their care; they want to be self-reliant. In other words, it is about dignity and pride. They do not want their children or spouse assisting them with personal care issues because it would be embarrassing and possibly degrading. Even more so, they do not want to depend on public assistance to pay for their care.
- *They do not want to burden family and/or friends.* Similarly, some may not want to burden their loved ones with having to provide care for them. We have already seen the financial burden that is involved with LTC. It can leave a caregiving spouse impoverished. In addition, providing such care can have physical and emotional consequences as well. For example, Alzheimer's victims are sometimes abusive to their caregivers. This only adds to the emotional stress of watching a loved one deteriorate to a point where he or she cannot recognize family and friends.
- *They desire a choice of providers and settings.* With the news reports of elder abuse in nursing homes and the often poor reputations of Medicaid homes, many buyers want to have the flexibility of choosing a setting other than a nursing home.¹⁵ They typically would prefer to "age in place" by receiving the necessary assistance in their own homes. When their care requires a skilled-nursing facility, they would like to be able to choose the facility. In both situations, choice means better care and greater flexibility—two things that reliance on Medicaid cannot provide.
- *They want to protect assets.* This reason for buying LTCI has two different manifestations. For those with moderate assets, the motive is to prevent bankruptcy. Given that the number one reason for bankruptcy among seniors in America is paying for LTC, this is a real concern. For those with a sizable net worth, the motive is more about leaving a legacy than in preventing LTC expenses from causing bankruptcy.

15. *Abuse of Residents Is a Major Problem in U.S. Nursing Homes.* Prepared for Rep. Henry A. Waxman, July 30, 2001. This congressional report estimates that one in three U.S. nursing homes was cited for an abuse violation during the 2-year period from January 1, 1999 to January 1, 2001

Reasons Given for Buying LTCI

1. I do not want to burden my loved ones with taking care of me when I get old.
2. I want to stay in my own home.
3. I want to make sure I get the best care I can afford.
4. I want to leave an inheritance for my children.
5. I want to be able to afford medical care when I get older.
6. I do not want my spouse to become impoverished.
7. I am afraid I might not be able to qualify to purchase it later in life should my health fail.
8. I do not want to depend on public assistance (Medicaid).
9. Government assistance will not be able to cover LTC in the future.

Markets

segmenting

target market

You have probably been in the financial services industry long enough to know that success comes from finding groups of prospects with common needs and characteristics, a process known as *segmenting*. The ultimate goal is to find a segment that is large enough so you do not run out of prospects and that has a communication system that will facilitate the process of identifying prospects. Such a segment is known as a *target market*.

Because of the relationship between needing LTC and age, we will first segment the markets for LTCI in terms of age: under age 50, ages 50 to 65, and over age 65. The following is a brief overview of these market segments to give you a better feel for and understanding of why segmenting is important.

Under Age 50. Typically, people under age 50 do not feel the need for buying LTCI as keenly as those who are older than age 50. This segment is a little more resistant because there are many other needs that are more important. For example, many are still worried about saving enough for their children's education and protecting their incomes from death and disability. Nonetheless, you will find two distinct opportunities in this market for selling LTCI. The first and most obvious opportunity is that you can sell these people a policy to cover themselves. The second and less obvious opportunity for you is to convince this under-age-50 group to motivate their aging parents or

other relatives to buy LTCI, or in some cases, to actually purchase a policy themselves for these aging loved ones.

Ages 50 to 65. While many in this market segment who are parents may still have other financial concerns (such as saving for children's educations and the life and disability insurance mentioned in the under-age-50 segment), a transition of priorities takes place with a greater emphasis now being placed on their retirement needs. Premiums are still very affordable for those in this segment and the need is appreciated more, especially for those who are watching their own parents cope with aging. This is the bread and butter market segment and will be for several years to come due to the fact that baby boomers (born 1946–1964) comprise a growing percentage of this market. In fact, the average age for LTCI buyers in 2008 was 57.7, a notable decrease from 61.3 in 2004.¹⁶

Getting Started

The following is one financial advisor's suggestion to other advisors who are getting started in the LTCI business:

1. Buy the product for yourself. You cannot sell something you have not bought yourself.
2. Sell the product to your staff or assistants.
3. Know your product.
4. Ask everyone to buy it.
5. Do not assume that someone does not need it or is not interested in it.

Over Age 65. The premium rates for LTCI begin to increase rapidly for prospects over age 65, not to mention the fact that a higher percentage of the people in this market segment will actually fail to qualify because many have age-related illnesses and medical conditions. Because of the high premiums and smaller percentage of people qualifying healthwise, this market segment requires more stringent prequalification than the other two markets..

To summarize then, consider this. A popular paradigm describes how the Chinese word *crisis* is expressed by combining the two concepts *danger* and *opportunity for change*. In other words, in Chinese thought, a crisis is a danger that is impregnated with an opportunity for change. The LTC crisis truly represents a danger for an aging population. For financial advisors

16. Eleventh Annual Individual LTCI Survey. Brokers World magazine,, July 2009.

who sell LTCI, the LTC crisis anticipates a real opportunity to change what could otherwise be a bleak future.

The market penetration of LTCI is currently less than 9 percent. This means many of your clients and prospects are not ready to face the coming LTC crisis. Therefore, you have an opportunity to beneficially change the future of many of your clients and prospects who would otherwise find their financial fortunes swept away by the need to pay for LTC.

CASE HISTORY WHY I SELL LTCI

Author's Note: The following case history summarizes the responses of several financial advisors to the question, "Why do you sell LTCI?" that was put to several financial advisors.

"It's Personal"

For many of the advisors we interviewed, selling LTCI is nothing short of a personal crusade against the devastating effects of a catastrophe waiting to happen. The reason for their missionary zeal is a personal experience and here are three of them:

Advisor 1

"I am motivated by the fact that my mother needed LTC but was ineligible for LTCI. I personally had to care for her and went into debt to do it. In addition, I had a college friend who, at age 34, had a bad accident and is now paralyzed from the waist down. He needs LTC but he cannot qualify to buy LTCI."

Advisor 2

"Even though my mother suffered from Alzheimer's and was bedridden, the last thing we wanted was to place her in a nursing home. At first, my 86-year-old father tried to care for her at home by himself, but lifting her and moving her around proved too much for him. Consequently, we turned to the wide range of home health care services to assist us in caring for my mother. Her care toward the end of her life was costing \$9,800 per month. I could see that it was not something my dad and I could afford for very long.

I also have a dear friend from high school whose husband had a stroke at age 54. This was a situation where I had talked to them many times about LTCI before the stroke but was unable to close the sale. These two experiences

have made a lasting impression on me. Seeing the need for LTCI has made me realize that I owe it to my clients to sell this product."

Advisor 3

"I have a personal motivation. My grandmother is 91 years old and has been incapacitated for almost 15 years. My grandfather was her primary caregiver until he passed away 2 years ago at the age of 95. When he died, my grandmother went to live with my sister. That was when we realized how hard my grandfather's job must have been. With everyone else in the family working or involved with their families, we needed the services of a home health care provider in order to keep her at my sister's home. This experience has really given me an appreciation of what other families go through in similar situations. It has also educated me about the cost of LTC. I am now motivated to help people buy this product."

"It's Profitable"

Some advisors shared their thoughts on the profitability of selling LTCI. They believe that helping people protect themselves from the devastation of LTC costs is not only the right thing to do, but it also has financial benefits as well. Here are the thoughts of two advisors.

Planner 1

"I got into the LTCI market because I saw the demographics of a graying America. Every year there will be more people needing this coverage, especially with the first wave of baby boomers rapidly approaching age 65. Furthermore, 43 percent of all people aged 65 and older will spend time in a LTC facility at some point in their lifetimes. This means that baby boomers are watching their own parents either pay for LTC privately or attempt to obtain financial assistance from Medicaid, raising their awareness of the emotional and financial costs involved.

LTCI is the fastest growing market opportunity in the industry."

Planner 2

"It's a very lucrative market. Advisors can make good money selling LTCI and feel good that they have done the right thing for their clients."

"What about You?"

The financial advisors quoted above have seen firsthand the tremendous impact LTC can have on family and friends. Because of their experiences, they want to help people avoid similar hardships and are passionate in doing so. In the process, they also realize that selling LTCI is a lucrative business.

It has been said that success and satisfaction happen when your passion intersects opportunity. Passion alone has created many starving artists. Opportunity alone has created many greedy CEO's. If you enter the LTCI market both to help people and to make money, you will likely be both satisfied and successful.

What about you? What is your story? Why do you want to sell LTCI?

CHAPTER REVIEW

Key Terms and Concepts are explained in the Glossary. Answers to the Review Questions and Self-Test Questions are found in the back of the book in the Answers to Questions section.

Key Terms and Concepts

selling process	social care
client-focused selling	acute care
prospect	cognitive impairment
long-term care (LTC)	Alzheimer's disease
skilled care	care settings
intermediate care	Medicare
custodial care	Medicaid
activities of daily living (ADLs)	long-term care insurance (LTCI)
instrumental activities of daily living (IADLs)	emotional needs
other care services	segmenting
	target market

Review Questions

1. Name and briefly explain each of the eight steps in the selling process.
2. What are four major factors involved with the impending LTC crisis?
3. Briefly define LTC.
4. List several emotional reasons why people buy LTCI.

5. List the three age-based market segments described in the text.

Self-Test Questions

Instructions: Read chapter 1 first, then answer the following questions to test your knowledge. There are 10 questions; for questions 6 through 9, match the statement with the step in the eight-step selling process to which it relates; for questions 10 through 15, circle the correct answer. When finished with the test, check your answers with the answer key in the back of the book.

Match each statement below with the step in the eight-step selling process to which it relates.

- | | |
|---|--|
| 6. Fact-finding occurs in this step. | (A) identify the prospect |
| 7. The objective of this step is to get an appointment. | (B) analyze the information |
| 8. This step is where you create a plan that best meets the needs, goals, priorities, and attitudes of the prospect. | (C) gather information and establish goals |
| 9. This step is where you establish rapport, explain your business purpose, and ask some thought-provoking questions. | (D) meet the prospect |
| | (E) approach the prospect |
| | (F) develop and present the plan |
10. Which of the following factors is the greatest predictor of the need for LTC services?
- (A) a geographically dispersed family
 - (B) a person's advancing age
 - (C) a divorce
 - (D) a lack of income and assets

11. Approximately what percent of residents in nursing homes are under the age of 65?
- (A) 12 percent
 - (B) 25 percent
 - (C) 32 percent
 - (D) 40 percent
12. Activities of daily living (ADLs) include which of the following?
- I. shopping
 - II. preparing meals
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II
13. Aspects of client-focused selling are described by which of the following?
- I. Client-focused selling relies on asking good questions and listening carefully.
 - II. The goal of client-focused selling is long-term mutually beneficial relationships.
- (A) I only
 - (B) II only
 - (C) Both I and II
 - (D) Neither I nor II

READ THE FOLLOWING DIRECTIONS BEFORE CONTINUING

The questions below differ from the preceding questions in that they all contain the word EXCEPT. So you understand fully the basis used in selecting each answer, be sure to read each question carefully.

14. All of the following are demographic changes that have made it more difficult for families to provide care for relatives EXCEPT
- (A) The increased participation of women in the paid workforce
 - (B) The large number of priorities that face family members
 - (C) The geographic dispersion of family members
 - (D) The increased size of the average family

15. All of the following are emotional reasons why people buy LTCI EXCEPT
- (A) To take advantage of Medicaid
 - (B) To not burden family and/or friends
 - (C) To maintain independence
 - (D) To protect assets