

# Marketing



## There's Room in the Big Tent:

Clearing up the Confusion between Traditional and Combo/Hybrid Plans and Finding the Best Fit for Your Consumer

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ILTCI

14th Annual Intercompany Long Term Care Insurance Conference

*Marketing*



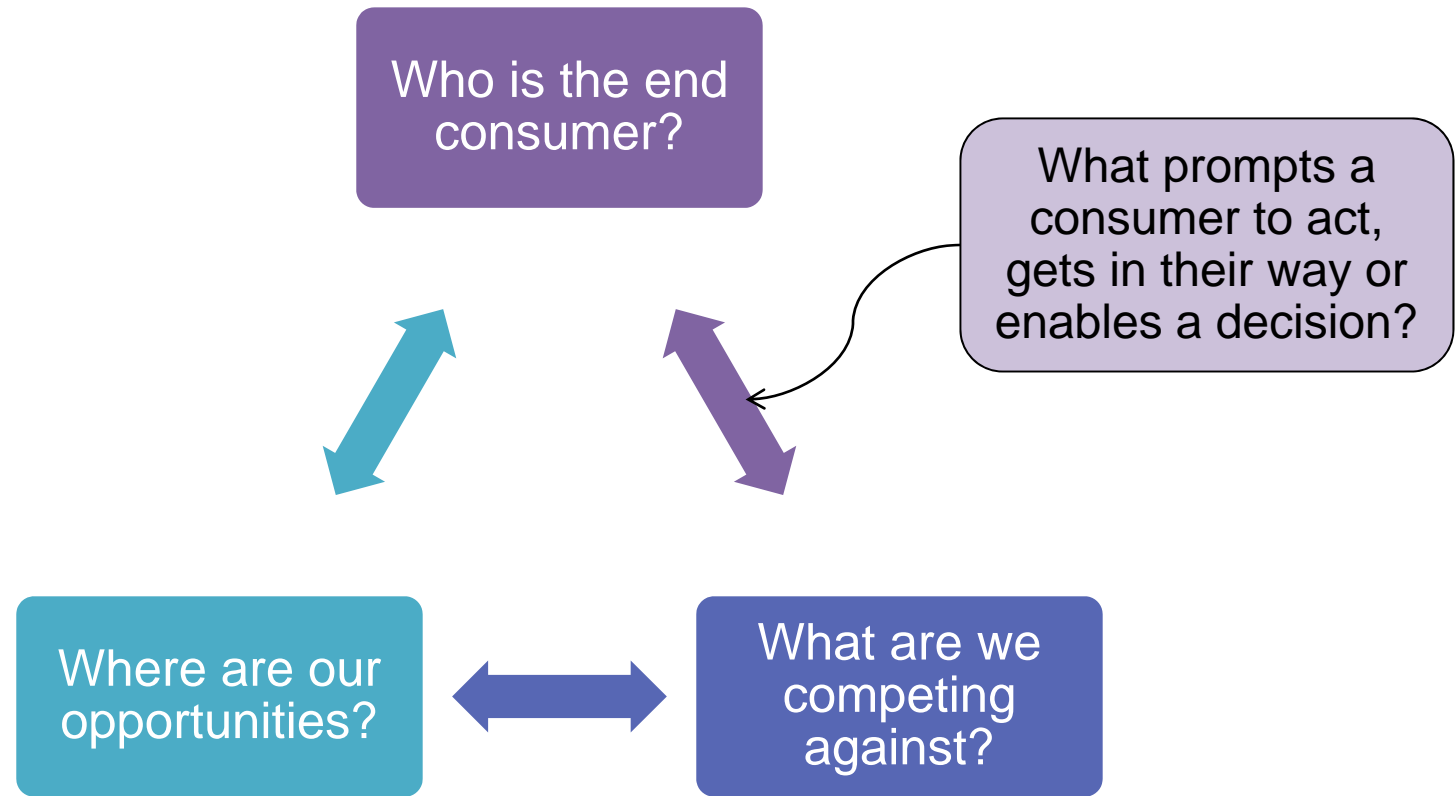
# **There's Room In the Tent... How Marketplace Trends Are Making the Case for More LTC Product Choice**

Suzanne Schmitt  
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# Our learning agenda



How can we leverage multiple data sources to identify opportunities, frame key insights, mitigate risk and partner on new market opportunities with our business?

# Data sources



## Qualitative

- Partner: LRW
- Completed: 4Q13
- Format: online message boards and 1:1 interviews
- N = 62 consumers
- Highlights:
  - Gen Y to Boomers
  - Targeted uninsured; emphasized Gen X+ consumers and those with \$500k to \$2m in IA
- Goal: explore life insurance relevance

## Quantitative

- Partner: PSB
  - Completed: 4Q13
  - Format: online survey
  - N = 2500 consumers
  - Highlights:
    - Millennials to Boomers
    - Mirrored U.S. population
    - Goal: understand what we compete against for mind and wallet share
- Partner: Experian
  - Completed: 3Q12
  - Format: online survey
  - N= 2002 consumers
  - Goals: size the individual market; identify factors that drive propensity to buy

## Syndicated

- Cerulli:
  - Financials
  - Purchasing preference
- Iconoculture:
  - Generational information
  - Consumer trends
- LIMRA:
  - Ownership
  - Sales data
  - Growth projections
- U.S. Census

Leverage multiple data sources to identify opportunities, frame key insights and partner on new market opportunities

# DEMOGRAPHIC CHANGES

# Values and key concerns by generations



	Gen Y	Gen X	Baby Boomers	Matures
<b>Age Range</b>	26 to 35 (Older Gen Y)	36 to 48	49 to 67	67 plus
<b>Population</b>	34 million	53.6 million	75 million	38.1 million
<b>Buying Power</b>	\$1.3 trillion	\$3.1 trillion	\$4.4 trillion	\$1.6 trillion
<b>Median Household Income</b>	\$50,774	\$61,916	\$60,018	\$33,712
<b>Key Characteristics</b>	Empowered Entitled Adapt Over Adopt Cautious Risk Takers	Pragmatic Irreverent Guarded Thrifty Survivors	Optimistic Unapologetic Reinventors Age Resistant	Sensible Conformist Responsible Control Aging
<b>Values</b>	Belonging Connectivity Flexibility	Authenticity Practicality Thrift	Hope Fulfillment Wisdom	Control Convenience Legacy
<b>Greatest Hopes</b>	Making a Difference Being Happy	Caring for Family Having Money to Retire	Fixed Income that Fits Lifestyle	Aging in place
<b>Greatest Fears</b>	Being Left Out Being Underestimated	Loss of net worth because of recession	Working forever	Loss of Independence Outliving Retirement Funds
<b>Rites of Passage</b>	First Real Job First Credit Card Paying Bills	Homeownership Raising Kids First Pink Slip	Retiring or Planning to Empty Nest Grandchildren	Retirement Great-grandchildren

Sources: Iconoculture,  
U.S. Census Bureau

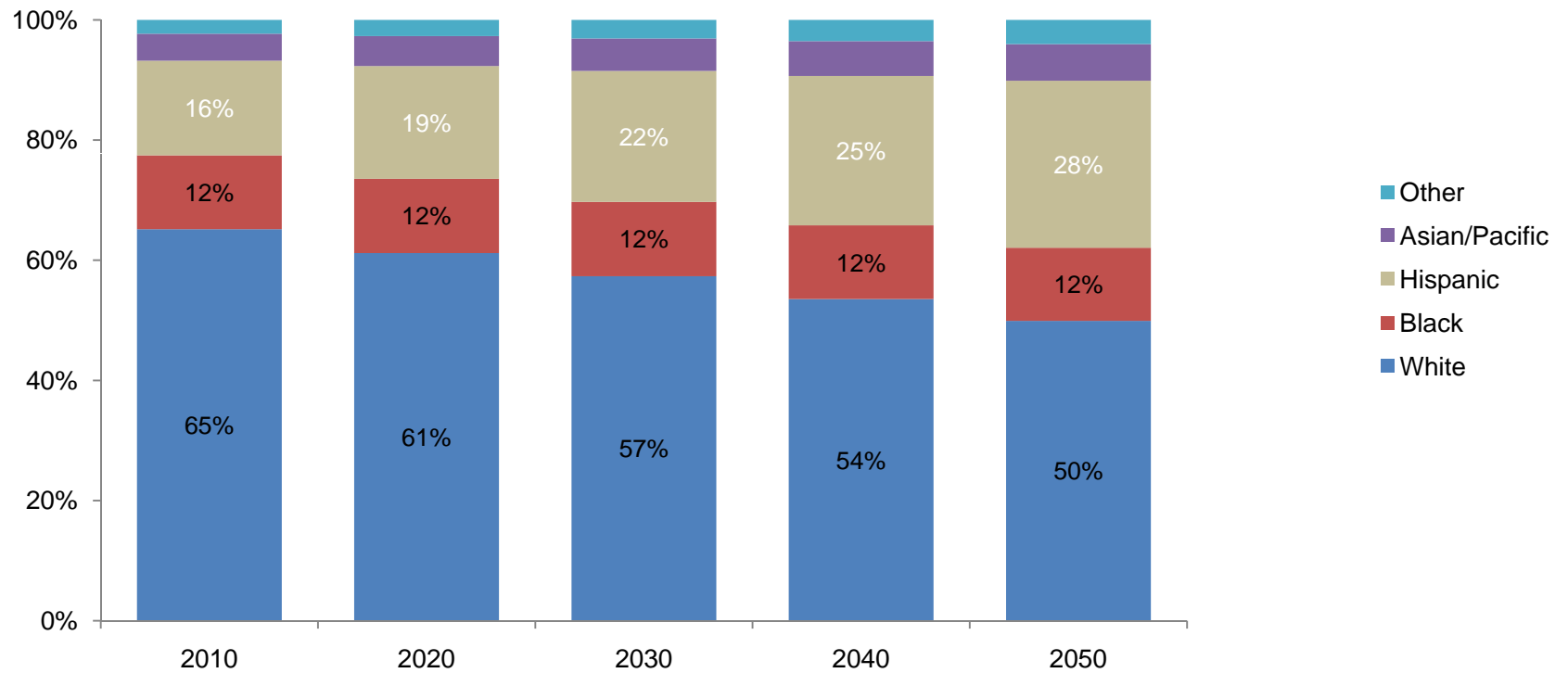
Emerging Market

“Traditional” Target Market

# Population projections through 2050



Projected US Population Distribution by Race

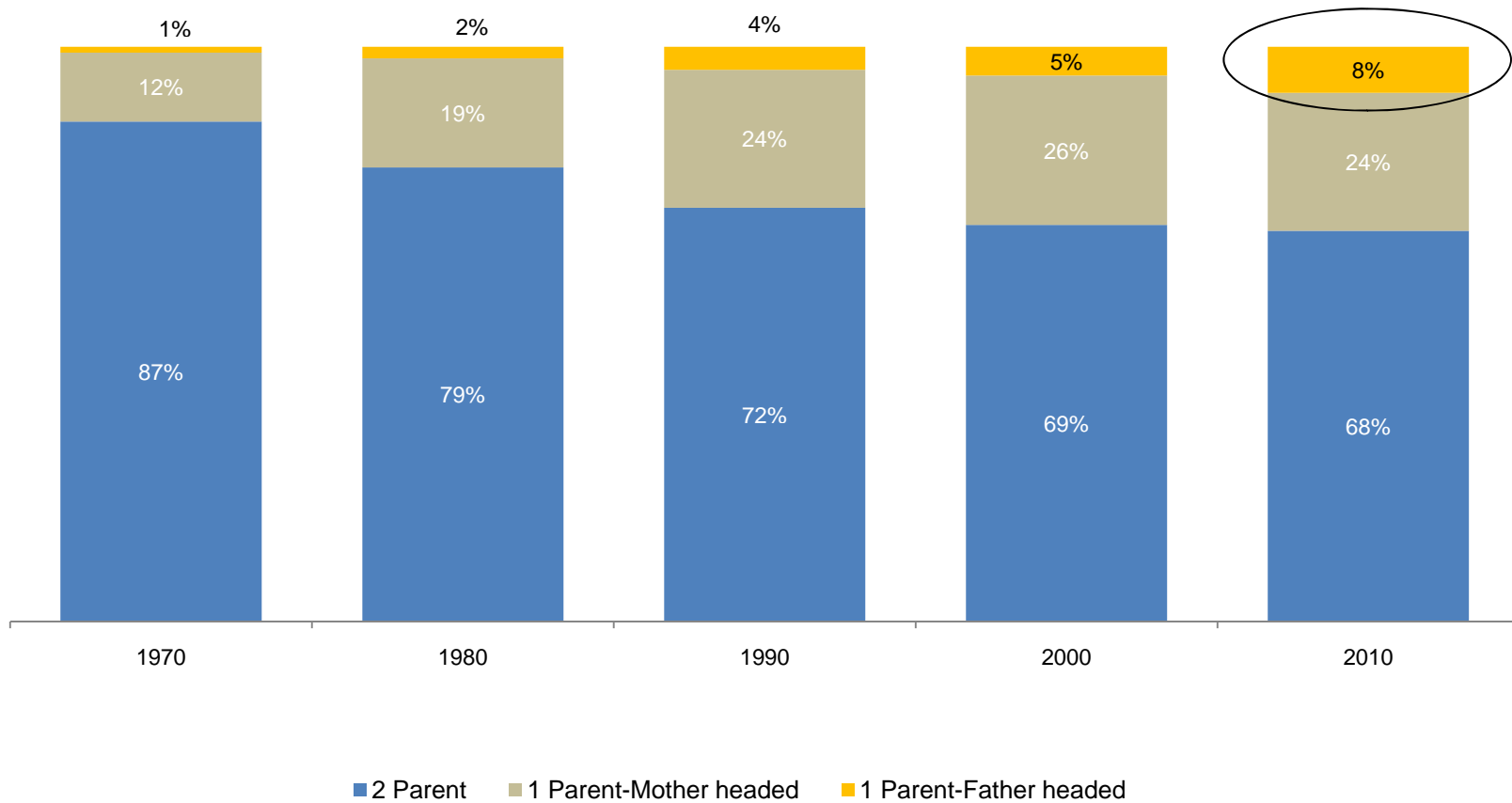


Source: U.S. Census Bureau

# Changes in household composition



## Changes in Traditional Family Structure



Source: U.S. Census Bureau

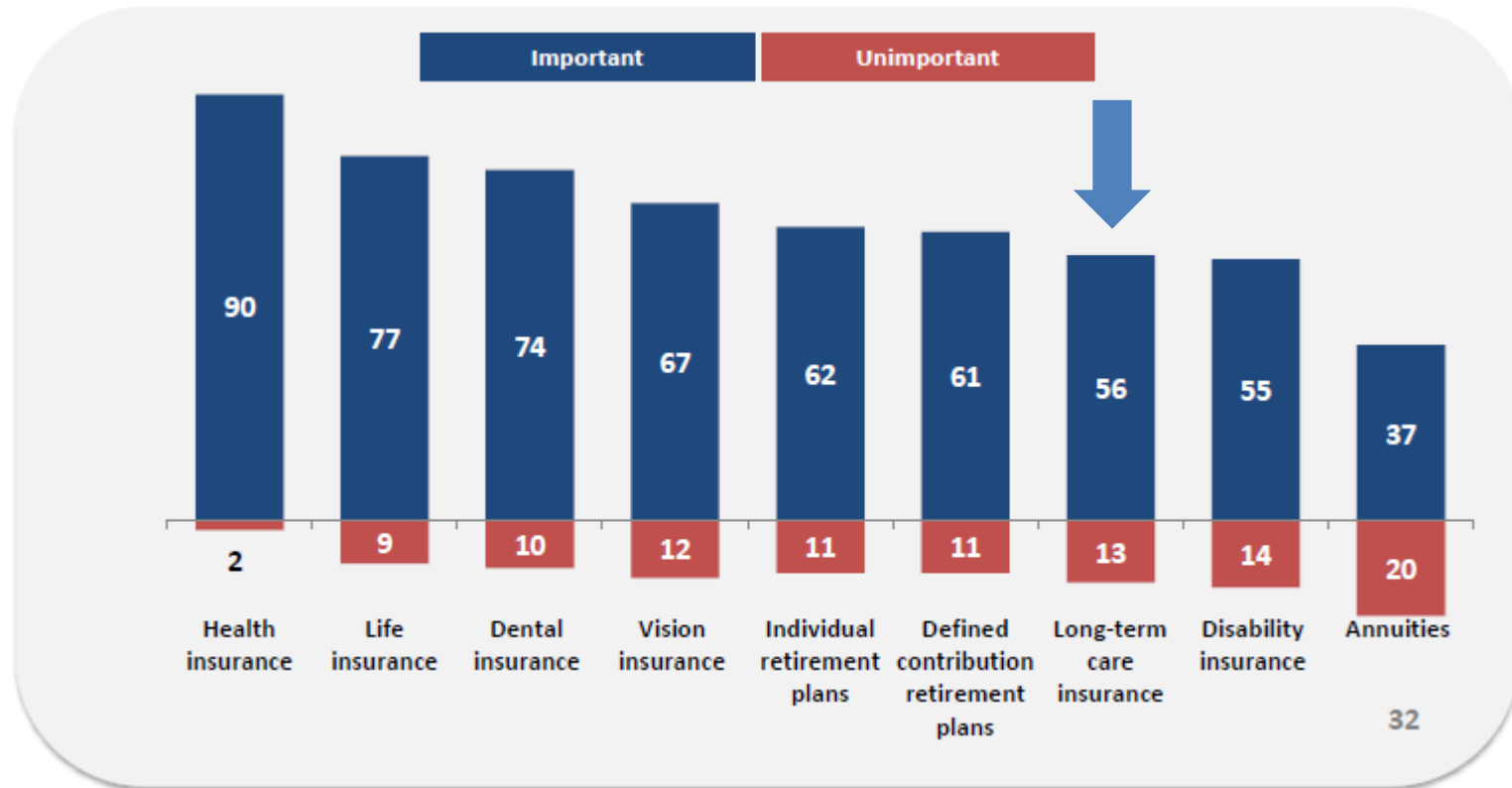


# FINANCIAL PLANNING & PRIORITIES

# What consumers say is important...



% of Consumers - View as Important or Unimportant

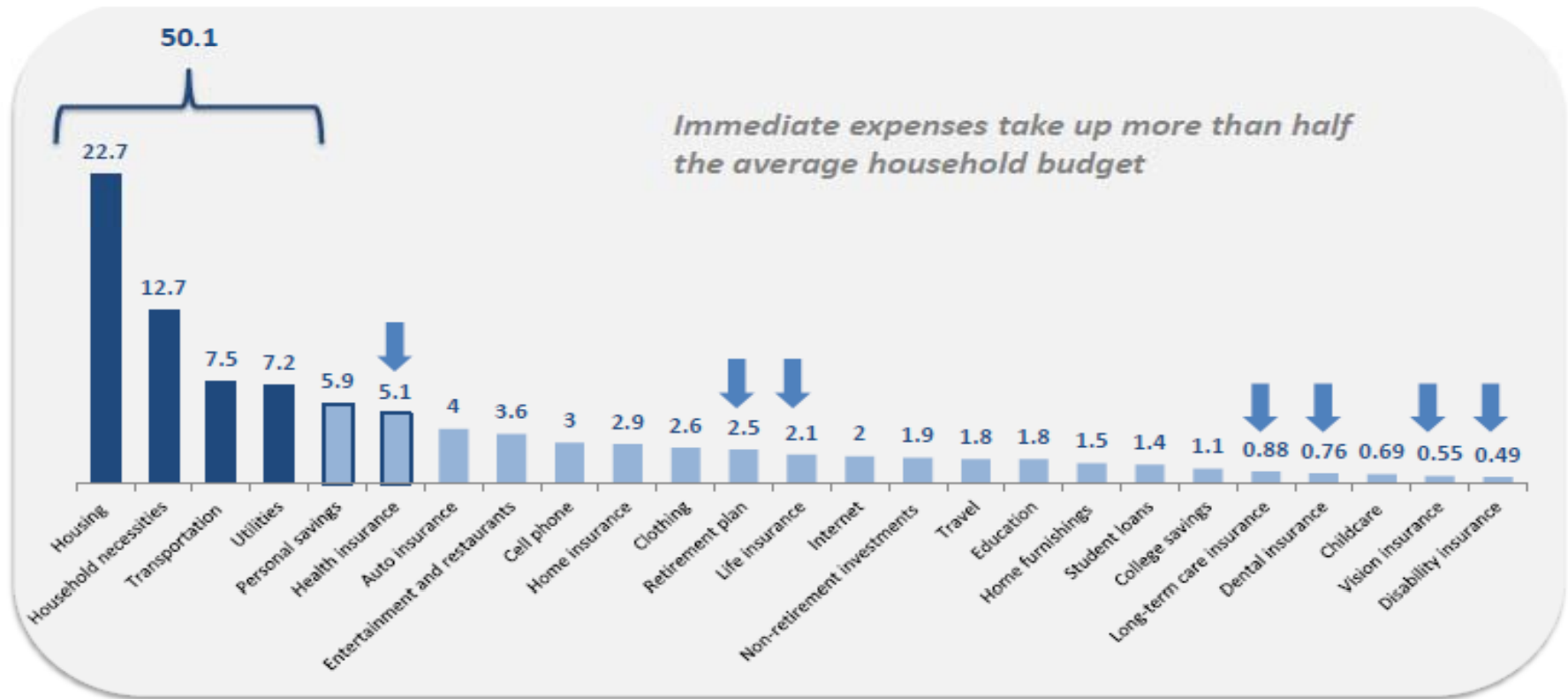


Source: 2013 Lincoln Financial Group Consumer Cohort Study

# Doesn't necessarily reflect spending



Please indicate roughly how much per month you spend on each of these?



Source: 2013 Lincoln Financial Group Consumer Cohort Study

# Although some groups do see greater value

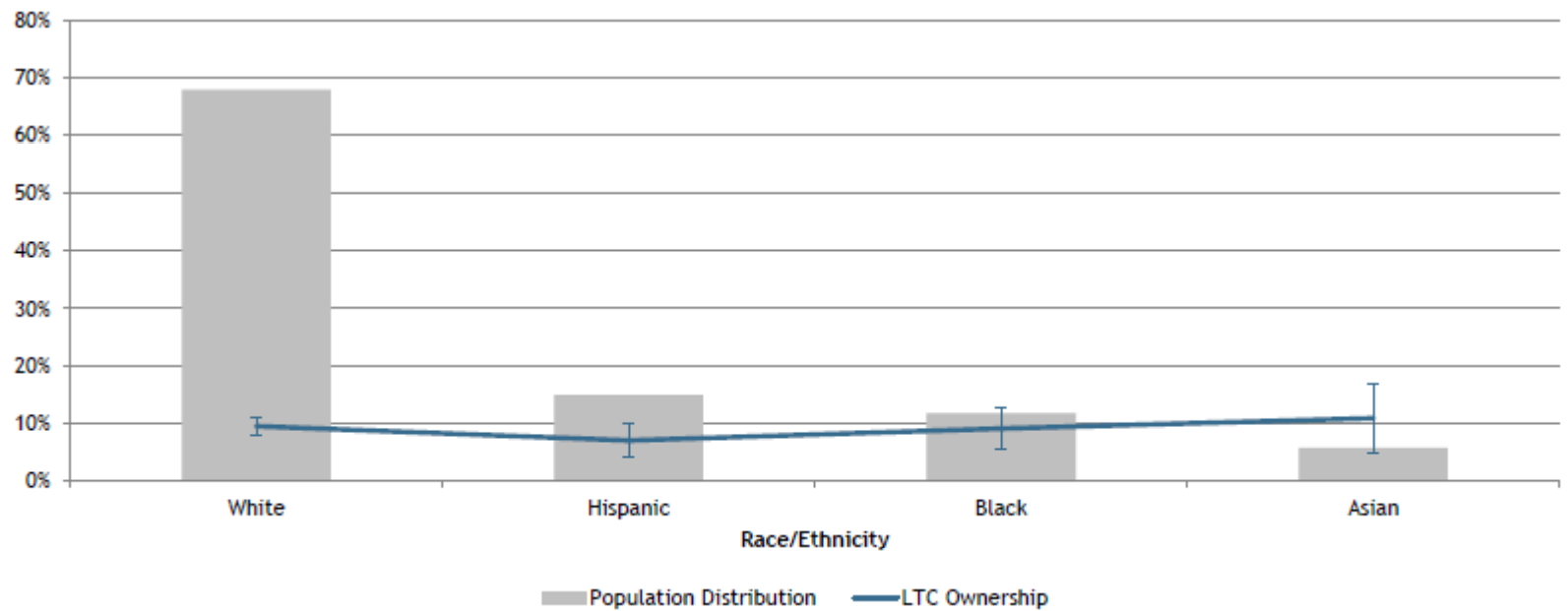


% of Consumers - Ranking by Benefit Type  
(Very/Somewhat Important – Rank Among 25 Benefits & Needs)

	All	Millennial	Gen X	Yng Boom	Old Boom	White	AA	Latino	Asian	LGBT	Married	Single	Single w/ Child.	Have Young Child.	Adult Child.	No Child.	\$25K or Less Inc.	\$100K + Inc.
Health Insurance	7	9	8	7	7	6	7	8	4	9	5	9	9	7	6	8	8	7
Life Insurance	11	13	12	11	11	11	10	13	15	13	11	12	11	12	11	11	12	12
Retirement Plan	13	14	11	11	13	13	11	14	16	16	12	12	12	13	13	12	14	11
Dental Insurance	14	12	14	13	14	14	12	12	11	15	13	15	15	15	14	13	13	14
Vision Insurance	16	16	15	14	16	16	13	16	17	10	16	18	17	16	16	15	16	18
LTC	17	18	17	17	17	17	15	17	20	19	18	19	18	18	17	16	17	19
LTD	22	23	19	15	19	20	16	21	22	23	20	22	23	20	20	20	21	21

Source: 2013 Lincoln Financial Group Consumer Cohort Study

# As is evidenced by “selective” ownership



\*Error bar shows confidence at the 95% intervals  
Source: 2012 Lincoln Custom Individual Market Sizing

# Still, most have near-term concerns



## Key concern by IA: >\$500k-\$2m

- Wealth protection: 26%
- Health of self or family member: 16%
- Retirement planning: 16%

## By age: 50-59

- Planning for retirement: 20%
- Getting debt under control: 15%
- Job loss/cut back: 15%

## By age: 60-69

- Wealth protection: 21%
- Retirement planning: 17%
- Cash flow: 15%

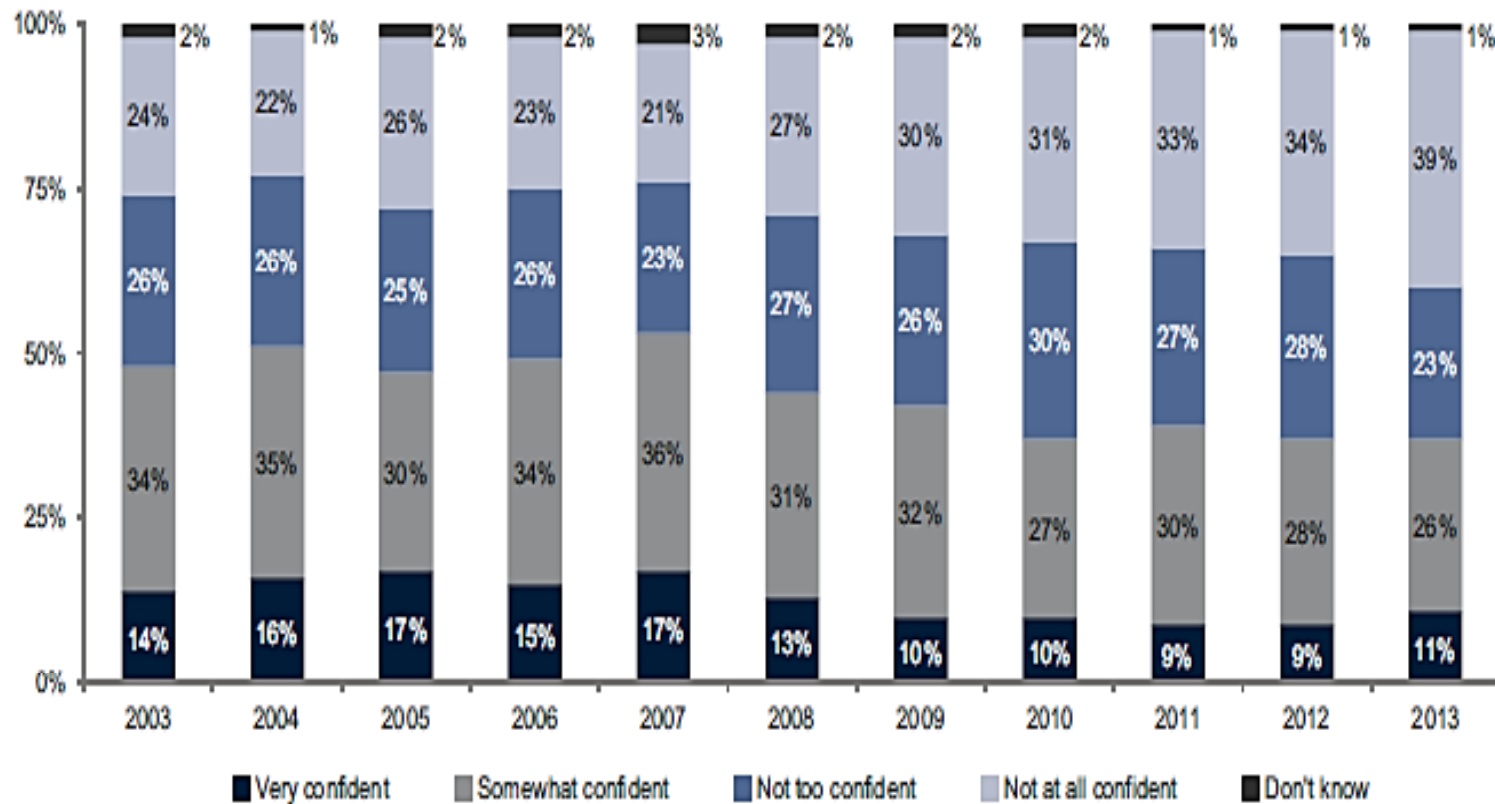
Source: Cerulli U.S. Retail Investor Product Use, 2013, Exhibit 4.03a/b

# That are not addressing paying for LTC...



## Consumer Confidence in Ability to Pay for Long-Term Care Expenses, 2003-2013

Sources: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1998-2013 Retirement Confidence Surveys

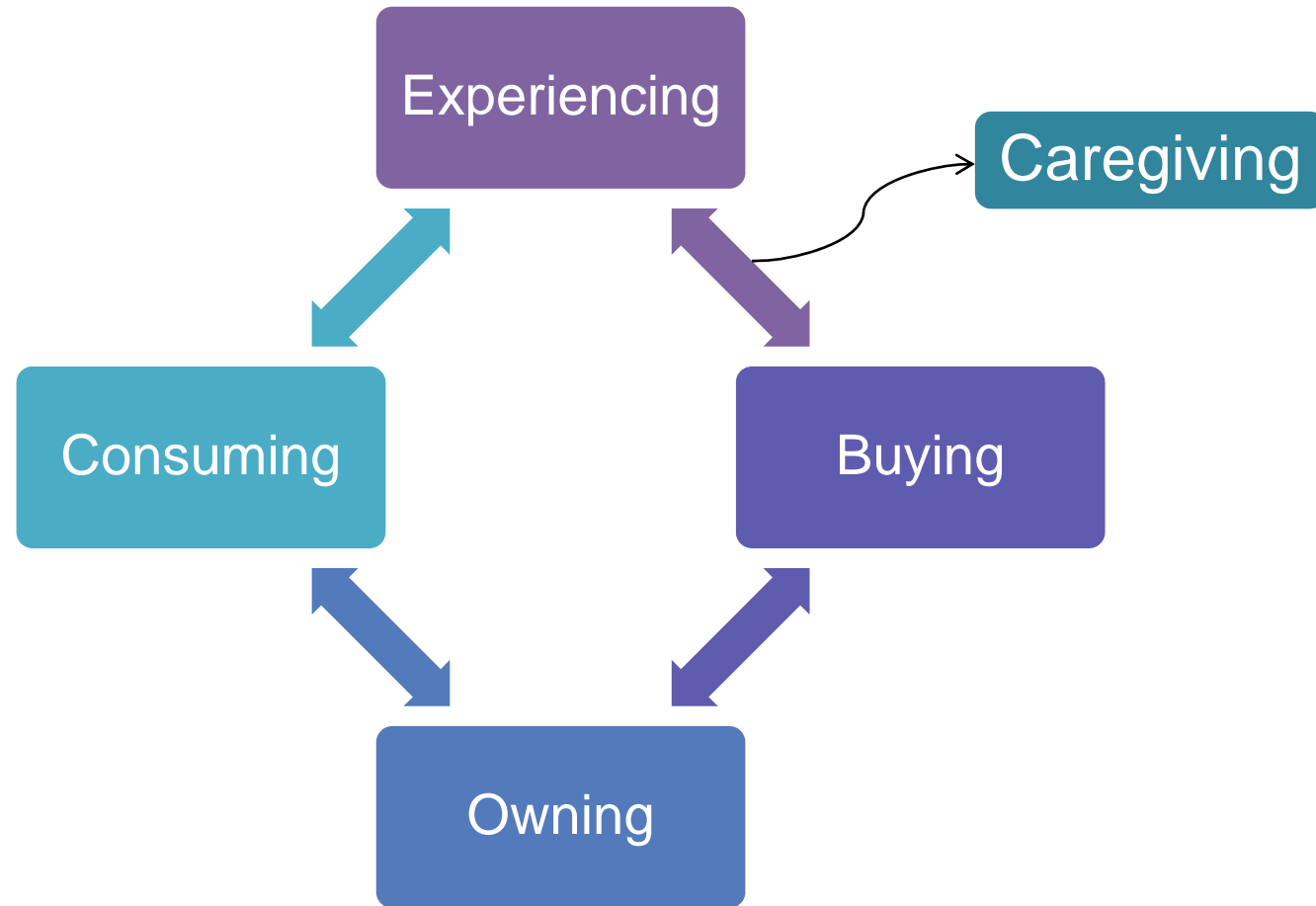


Source: 2013 Cerulli Annuities and Insurance Report, 7.11

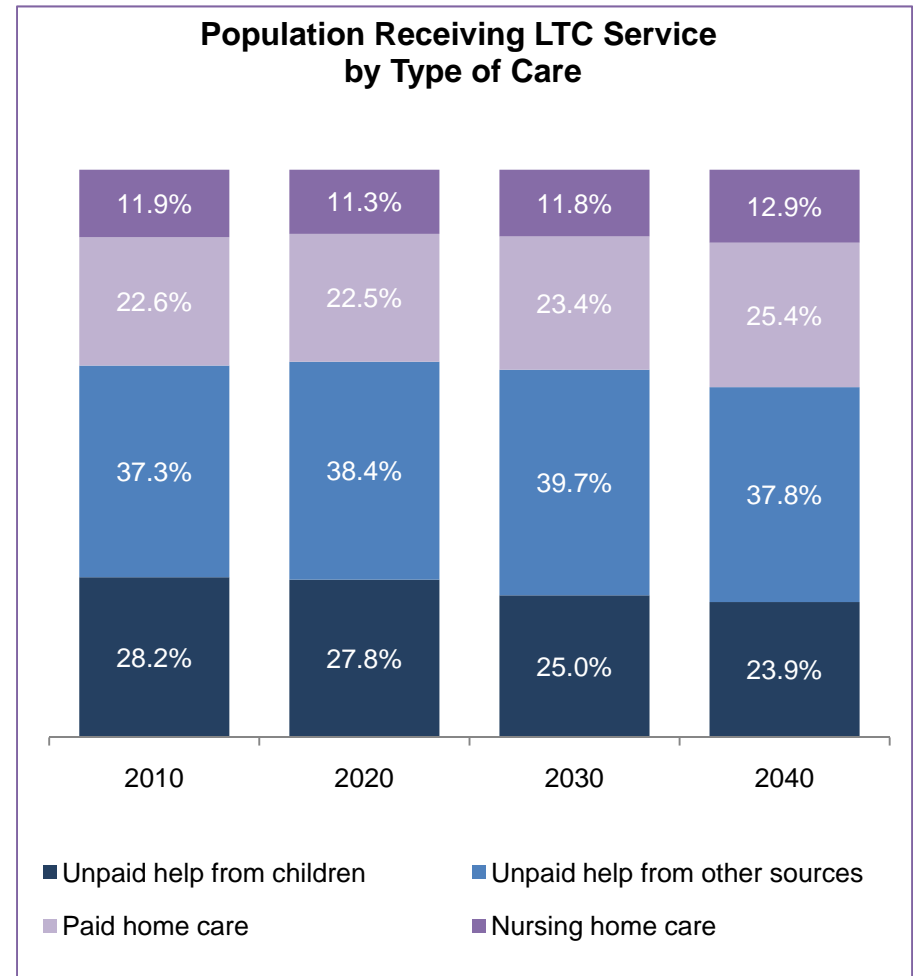
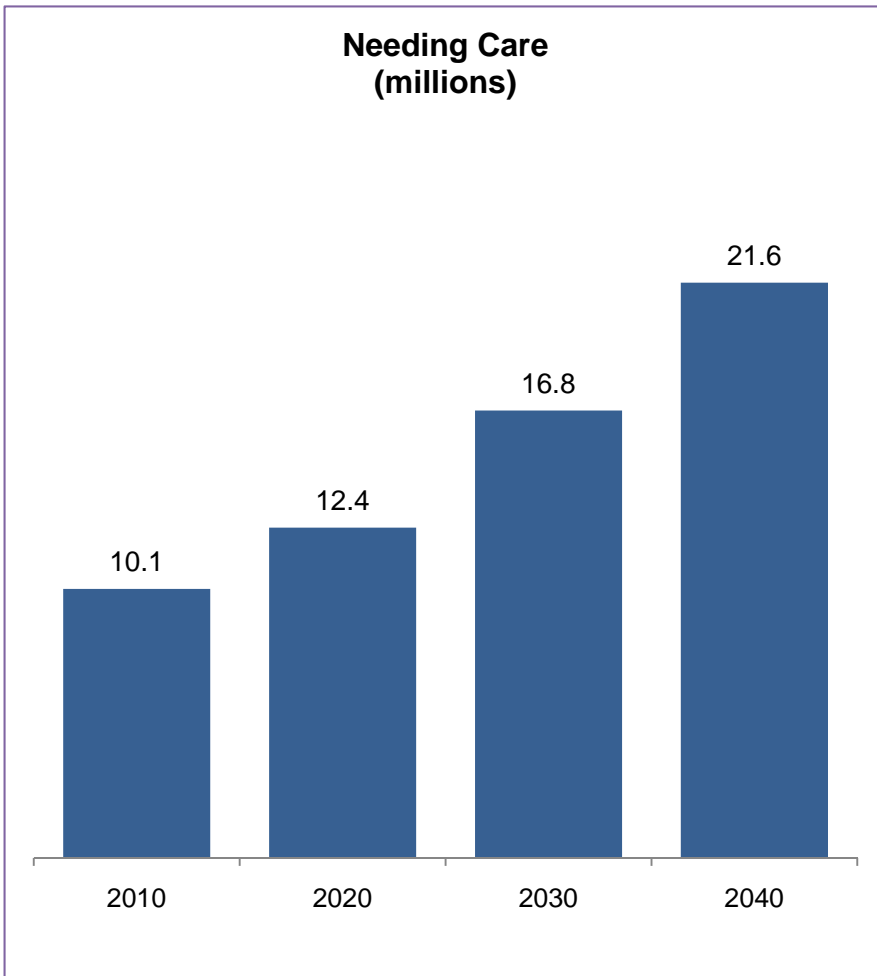
# MEETING “CONSUMERS” WHERE THEY ARE



# Rethinking the LTC/LTCI lifecycle

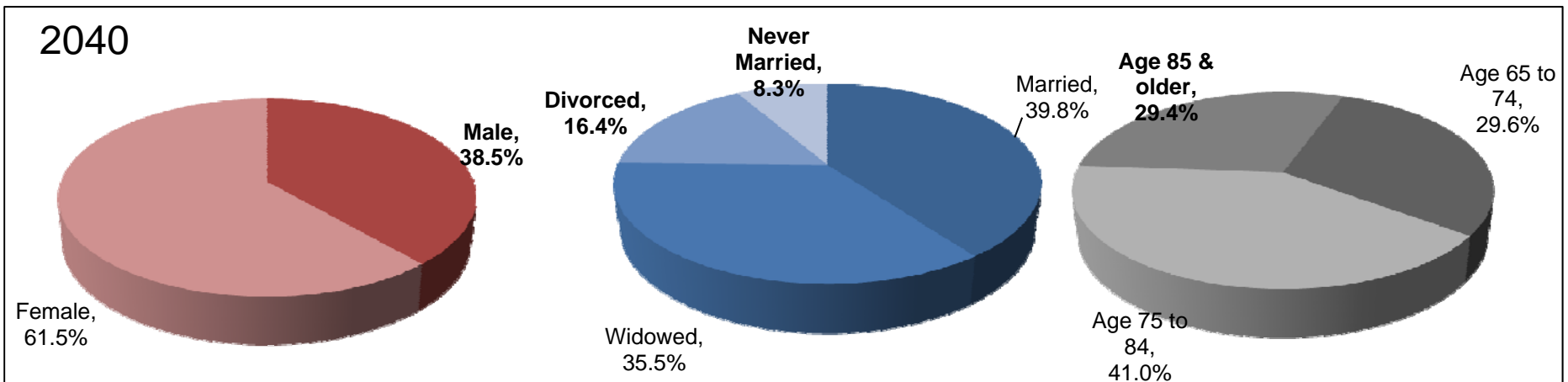
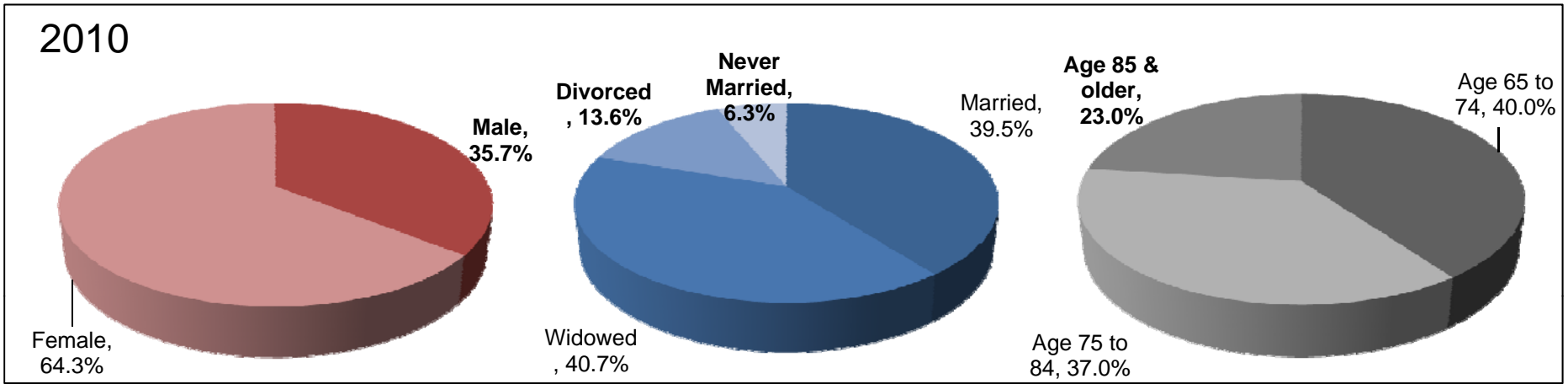


# Boomers' care needs will double by 2040



Meeting the Long-Term Care Needs of the Baby Boomers:  
How Changing Families Will Affect Paid Helpers and Institutions, Urban Institute, May 2007

# And demographic changes will test the “system”

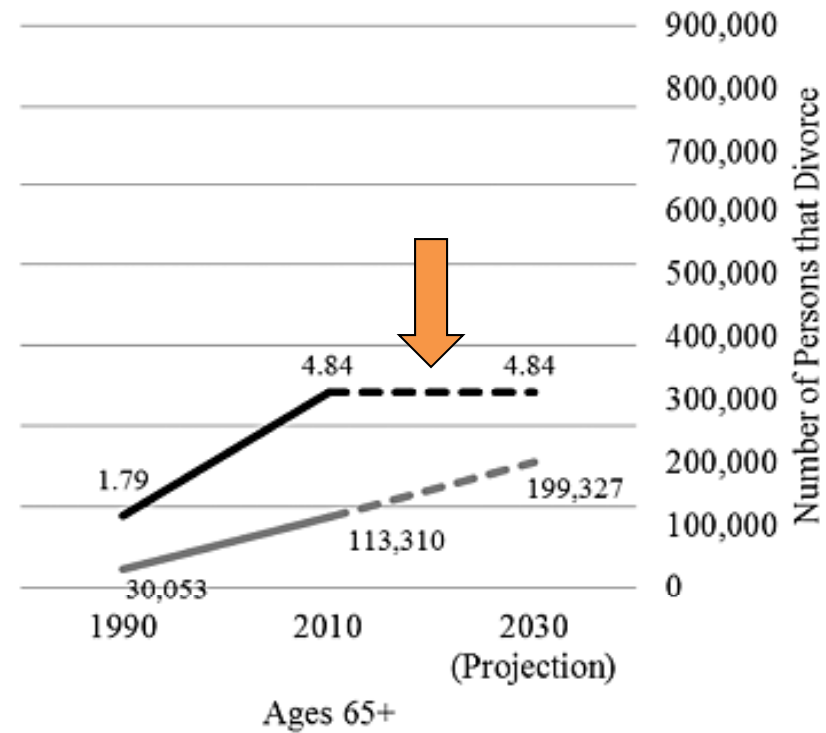
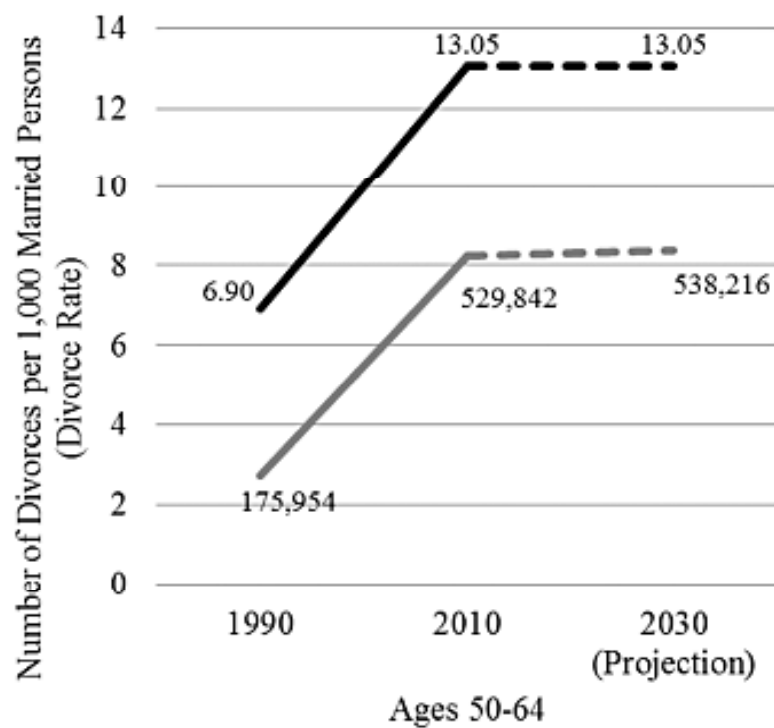


# More specifically, projected increases in divorce among 65+ may redefine what it means to age in place



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BROWN AND LIN

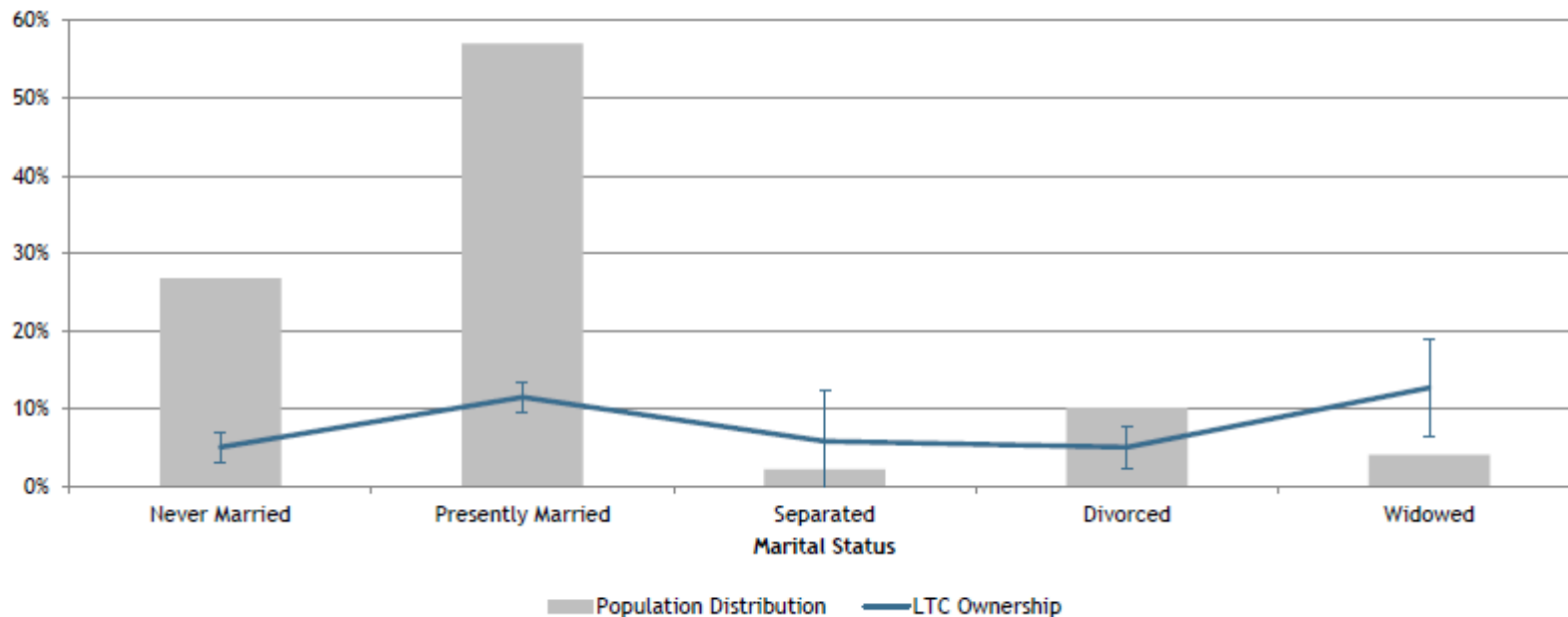


— Divorce Rate — Number of Persons that Divorce

— Divorce Rate — Number of Persons that Divorce

Source: The Gray Revolution: Rising Divorce Among Middle-Aged and Older Adults, 2012

# Yielding another consideration set for purchase

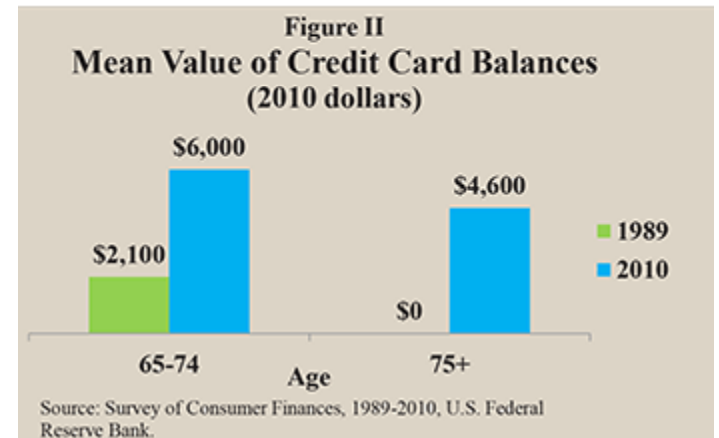
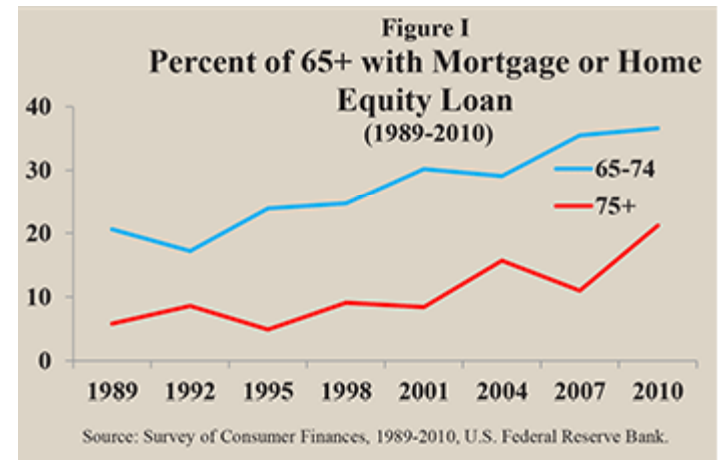


\*Error bar shows confidence at the 95% intervals  
Source: 2012 Lincoln Custom Individual Market Sizing

# In addition, more carry debt into retirement



- One in three consumers ages 65 to 74 are carrying a mortgage or home equity loan up from one in five in 1989. The increase is even greater for those 75 and older, up from 6% in 1989 to 21% in 2010.
- As of 2010 the average mortgage debt carried by new retirees was \$70,000.
- Consumers are also carrying significantly more credit card and other forms of debt into retirement.



"Carrying Debt After Retirement", NY Times, September 26, 2013.  
Survey of Consumer Finances 1989-2010, U.S. Federal Reserve Bank.

# Creating additional need for products like hybrids that deliver immediate value



## TIER 1



### GUARANTEED DEATH BENEFITS

- Consumers look to life insurance principally for this peace of mind



### LONG-TERM CARE RIDER

- Appeals to deeply-ingrained fear of becoming a burden to loved ones



### DISABILITY



### SPOUSAL COVERAGE

## TIER 2



### CRITICAL ILLNESS RIDER

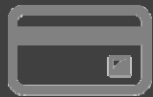


### ACCELERATED BENEFIT RIDER



### BUY THROUGH WORK

- Considered table stakes



### PAY BY POINTS

## TIER 3



### 2% DISCOUNT IF SET UP AUTOMATIC WITHDRAWAL OF PAYMENTS

- Considered table stakes



### MANAGE ACCOUNT FROM COMPUTER OR MOBILE DEVICE

- Considered table stakes

“ I want to be sure that if something happened, my son and grandson would not be burdened with having to take care of me because my insurance would help them if I had to go in a home or need long term care. –Janice H., Baby Boomers With Insurance ”

Source: Lincoln Financial Group Life Relevance Study, 2013

# FINDING THE RIGHT FIT



# Sample consumer profile



- **Demographics:**
  - 57 year-old divorced male, no children
  - \$150k in annual income
  - \$1.5m in investable assets
  - Owns his own home in Boston
  - Has life insurance through employer
- **Social and behavioral considerations:**
  - Uses an advisor to validate his decisions
  - Is healthy and has longevity in his family; has had personal experience providing LTC
  - Is interested in working through age 70
  - Wants to remain at home
- **Product considerations:**
  - Has funds set aside; wants to maximize leverage
  - Is aware of family history of longevity and is most concerned about paying for possible LTC event
  - Is contemplating charitable bequest to university



# Navigating non-traditional options



	Accelerated Benefits Rider	Typical LTC riders	Combination products
<b>Primary need</b>	Death benefit protection	Death benefit protection	LTC funding
<b>Secondary need</b>	Flexibility in the event of a chronic illness	Supplemental long-term care	Death benefit protection
<b>Tax treatment</b>	101(G)	7702B	7702B
<b>Pays claims for</b>	Permanent conditions only	Permanent and intermittent conditions	Permanent and intermittent conditions
<b>Claim process</b>	Indemnity, available for any use	Indemnity or reimbursement, contingent on rider	Reimbursement for qualified LTC expenses
<b>Typical waiting period</b>	0 days	90 days	0 days
<b>Inflation protection</b>	None	Contingent on rider	Option available
<b>Underwriting</b>	Full underwriting	Full underwriting	Streamlined
<b>Residual death benefit</b>	No	Contingent on rider	Yes
<b>Return of premium options</b>	No	No	Yes
<b>Agent licensing requirements</b>	Life insurance and state specific CE, where applicable	Life insurance and state specific LTC CE, where applicable	Life insurance and state specific LTC CE, where applicable

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# Product Solutions in the “Big Tent”



Individual LTCi

Group LTCi

Linked Benefit LTCi

Chronic Illness Riders

Critical Illness

Medicaid

Medicare

Self-Insurance

# Benefits of a BIG Tent Industry

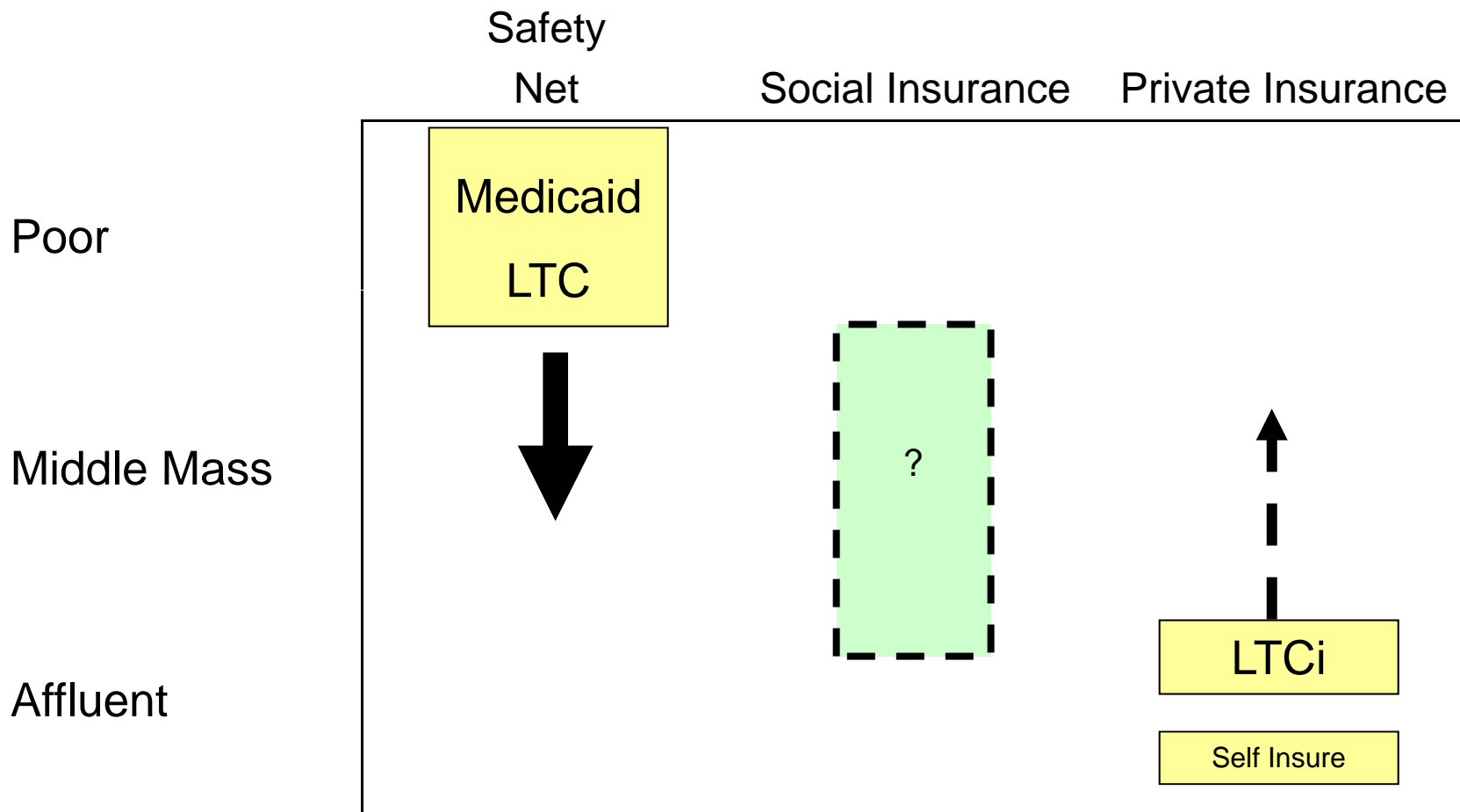


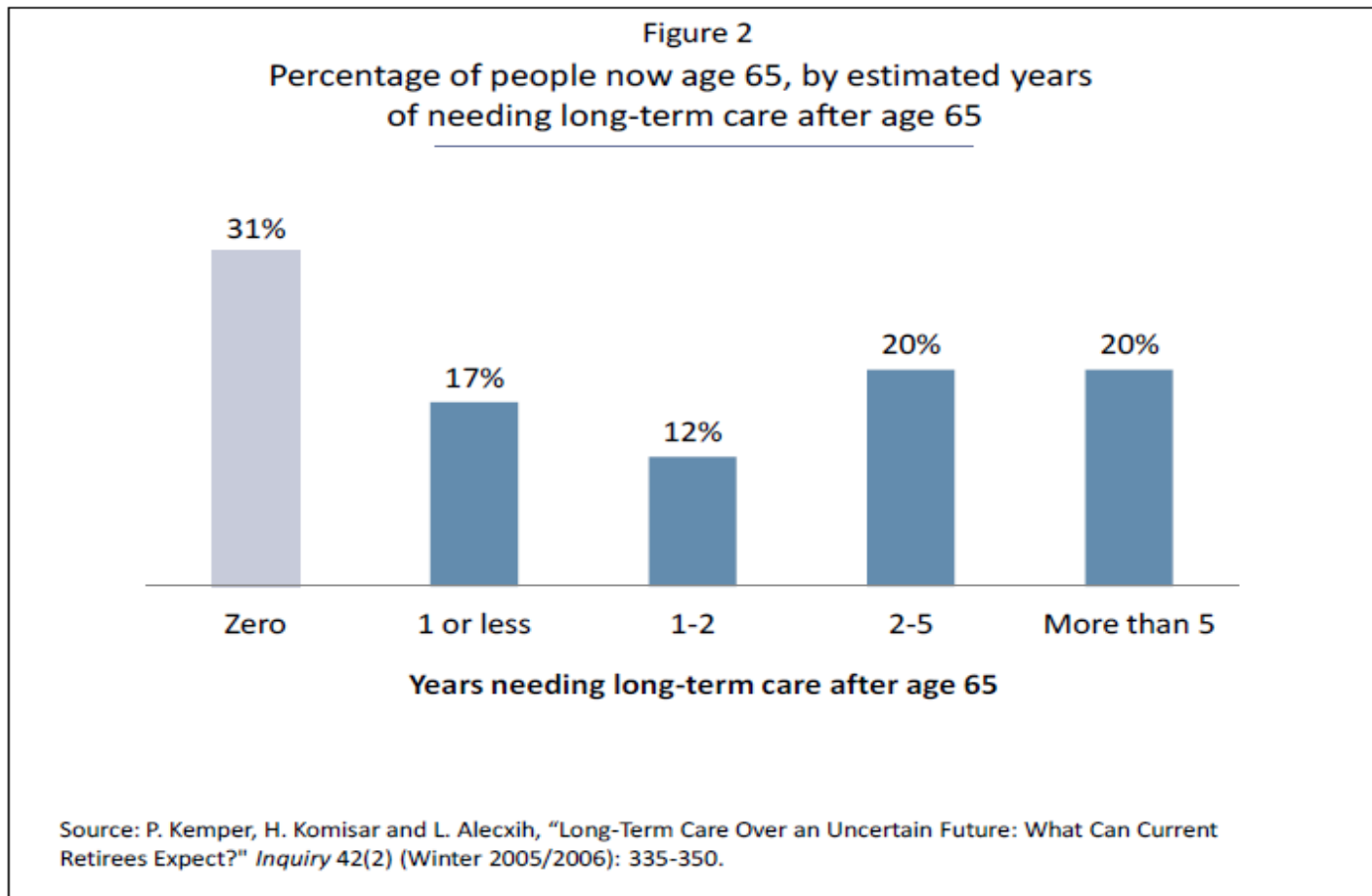
- Viable market for getting through the low interest rate environments
- Encourages innovation and a mature product offering
- Provides a greater array of solutions to a variety of consumers

Individual LTCi  
Group LTCi  
Combination LTCi  
Hybrid  
?



# It's a Big Puzzle as Well





- *Judy Feder and Harriet L. Komisar; "The Importance of Federal Financing to the Nation's Long-Term Care Safety Net"; February 2012*

- In Care Settings\*:
  - Home Health Care
    - About Half of Home Health Care claims end in death and half end in recovery.
  - Nursing Home
    - 66% of nursing home claims end in death.

*\*The 2014 Sourcebook for Long-Term Care Insurance Information; American Association For Long-Term Care Insurance*



# Long-Term Care Risk and Expenses



- Why is the enormous elephant in the room ignored?
  - A. Ignorance – lack of actionable information
  - B. Affordability
  - C. The presence of alternatives
  - D. Insurance/financing products are limiting
  - E. A lack of advice givers
  - F. The elephant has a lot of friends in the room
  - G. All or most of the above



- Average Middle Mass:
  - \$60,000 gross household income
  
- Mass Affluent:
  - \$90,000 gross household income

- Stand-alone LTC, Hybrid LTC, Chronic Illness Riders:
  - Lapse
  - Incidence
  - Termination
  - Mortality
  - Portfolio
  - Expenses

- Adverse selection
- Dampening of the Incentives (EP)
- Double-dipping
- Provider use incentives
- Opportunistic lapse
- Married today, not tomorrow
- Overall Moral Hazard

# Policyholder Behaviors That Impact Pricing



- Adverse selection
  - Georgetown University Medical Center (March 10, 2014)

## **New Blood Test Can Predict Alzheimer's, Mild Dementia**



**March 9, 2014** – A blood test that can predict with 90 percent accuracy if a healthy person will develop mild cognitive impairment (MCI) or Alzheimer's disease within three years has been discovered and validated by researchers at Georgetown and six other institutions.

The study team explains in the April issue of *Nature Medicine* (the paper was published online today) how they discovered and then validated a set of 10 lipid biomarkers in the blood that predict both conditions.

The discovery heralds the possible development of earlier treatment options for Alzheimer's, when therapy could be more effective at slowing or even preventing onset of the disease.

# Policyholder Behaviors That Impact Pricing



- Moral Hazard: (Wikipedia)

- In insurance markets, moral hazard occurs when the behavior of the insured party changes in a way that raises costs for the insurer, since the insured party no longer bears the full costs of that behavior. Because individuals no longer bear the cost of medical services, they have an added incentive to ask for pricier and more elaborate medical service, which would otherwise not be necessary. In these instances, individuals have an incentive to over consume, simply because they no longer bear the full cost of medical services.
- ...*ex post* (after the event) moral hazard. In this case, insured parties ask an insurer to pay for more of the negative consequences from risk as insurance coverage increases. For example, without medical insurance, some may forgo medical treatment due to its costs and simply deal with substandard health. But after medical insurance becomes available, some may ask an insurance provider to pay for the cost of medical treatment that would not have occurred otherwise.
- Sometimes moral hazard is so severe it makes insurance policies impossible. Coinsurance, co-payments, and deductibles reduce the risk of moral hazard by increasing the out-of-pocket spending of consumers, which decreases their incentive to consume. Thus, the insured have a financial incentive to avoid making a claim.

- How would you design a product that would:
  - Reduce the exposure to the assumption risks,
  - Maintain the product incentives,
  - Reduce the barriers to purchase,
  - Assist policyholders throughout their retirement years,
  - Eliminate the presence of moral hazard?



# Questions?



- Thank you!
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