



Designing the Right Product to Increase Market Penetration

THE ELEVENTH ANNUAL INTERCOMPANY LONG TERM CARE INSURANCE CONFERENCE





Designing the Right Product ...

To Increase Market Penetration

Agenda

- **The Consumer Perspective –**

Mary Swanson - FSA, MAAA LTC Product Performance Director,
Mutual of Omaha

- **The Producer Perspective –**

Loida Abraham – CEO, LTC Edge LLC, a member of Amerilife

- **American General – A Case Study**

Jay Drucker – Vice President, Accident and Health business
leader, American General

- **Q&A**



Designing the Right Product ...

To Increase Market Penetration

The Consumer

By: Mary Swanson, FSA, MAAA
LTC Product Performance Director,
American General



LTCi Buyers versus Nonbuyers

Survey completed in 2010

Objective:

- Identifying leading indicators of the intention to purchase long-term care insurance;
- Identifying the life events that trigger the purchase of a long-term care policy, and;
- Defining the education process that consumers go through before purchasing long-term care insurance.



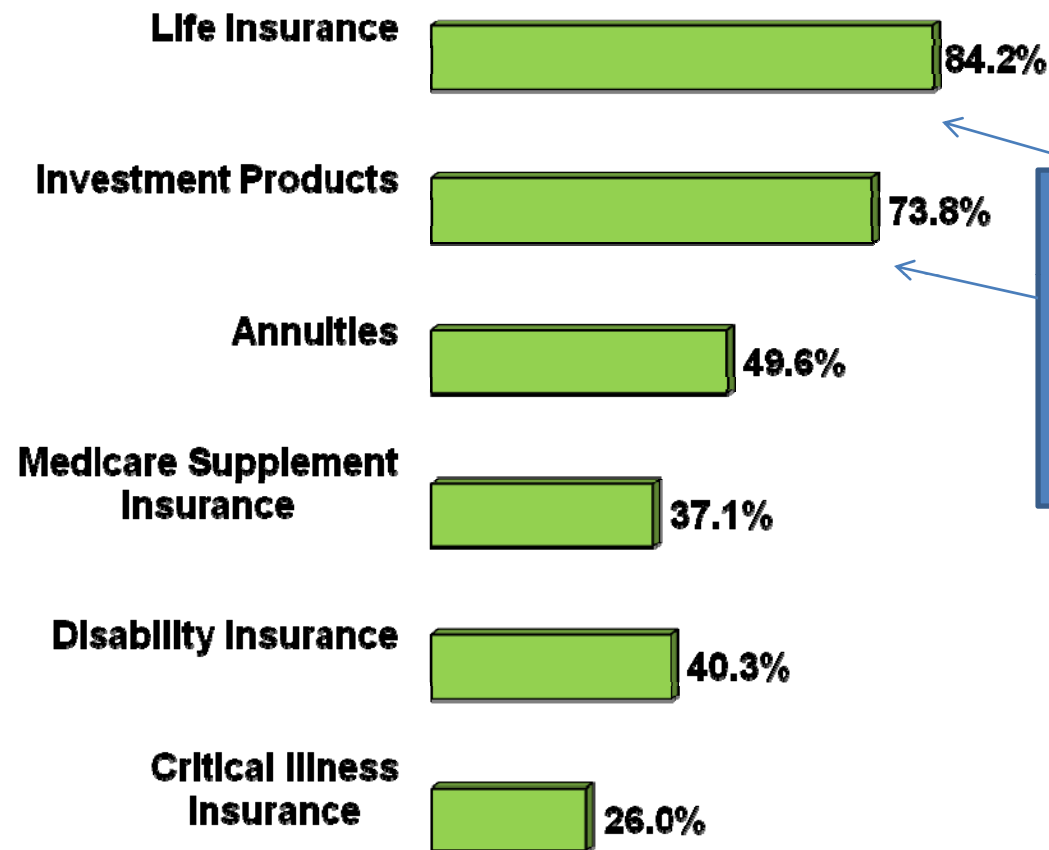
Why did they purchase LTCi?

Reasons for purchase	% classified as major consideration
If I need Long-Term Care services, I don't want to struggle financially	75.20%
I don't want to be a financial burden to my family	73.40%
I know I'm getting older	61.80%
I don't want my children to have to take care of me	60.30%
To make sure that my life in later years is on my own terms	59.60%
I want to be able to stay in my home when I'm older	55.80%
I don't want someone else making decisions about where I live	52.40%



Current Purchasers of LTCi

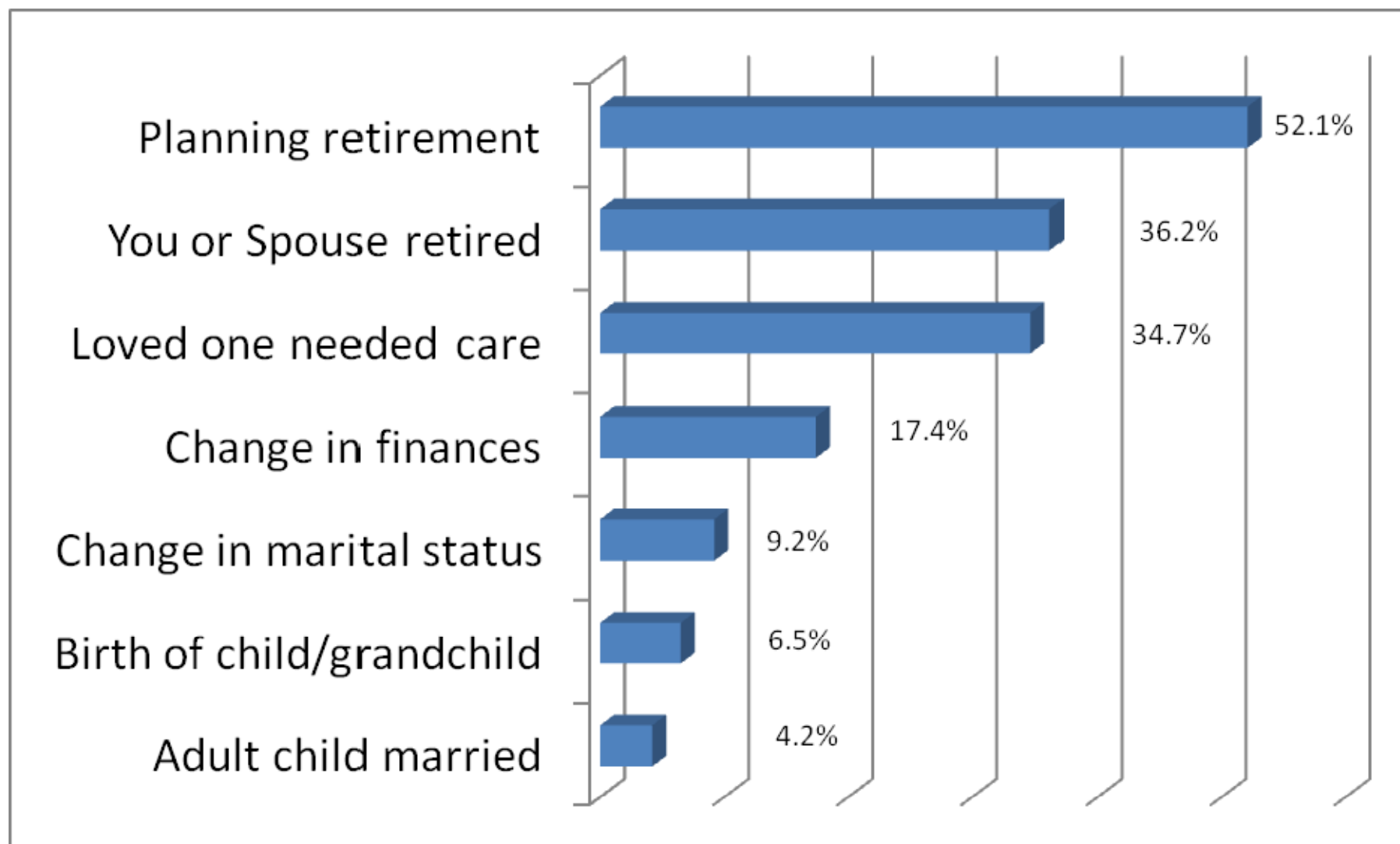
Which of these remaining types of financial services products do you currently have? [% Yes]



Majority of LTCi purchasers have also purchased life insurance and investment products.



Current Purchasers' Life Events





LTCi Nonbuyers' Considerations

The non-buyers considered purchasing long term care insurance for the same reasons the buyers did.

- They didn't want to struggle financially if they needed LTC
- They didn't want to be a burden to their family
- They wanted to stay in their home and make their own decisions about the care that they might need.



LTCi Nonbuyers' Top Reasons Not to Buy

1	The cost of the policy was too high	76%
2	The insurance company might raise my premiums in the future	65%
3	Long Term Care insurance policies are confusing	65%
4	The policy might not cover some future long term care need	57%
5	I will be able to pay for long term care services myself	51%
6	The insurance company might not pay benefits	49%
7	I was confused about what the government may cover	41%
8	My family will care for me if I need long term care services	38%
9	I will never need long term care services	38%
10	The insurance company might stop offering long term care ins	27%
11	I believe Medicaid will pay for long term care services I might need	24%
12	My spouse would not have been covered by the policy	24%



LTCi Nonbuyers' Profile

- ✓ Younger than the buyers
- ✓ Mirrored the buyer profile in many ways
- ✓ Owned fewer insurance products
- ✓ More likely to have children at home

It seemed that they recognized the need for long-term care but were not convinced to direct their resources to a purchase.



LTC Customer – Mosaic Segments

Mosaic	Index
Affluent Suburbia	157
Upscale America	136
Small-Town Success	94
Blue Collar Backbone	56
American Diversity	152
Metro Fringe	95
Remote America	53
Aspiring Contemporaries	42
Rural Villages & Farms	220
Struggling Societies	58
Urban Essence	14
Deviating Lifestyles	38



Mosaic Segment #1– Affluent Suburbia



Wealthiest households in the nation

Concentrated in exclusive suburban neighborhoods

They enjoy the good life

- ✓fashionable houses
- ✓the latest technology
- ✓drive luxury cars
- ✓belong to country clubs
- ✓travel abroad, and
- ✓relax by sailing, golfing or skiing.

Purchasing behavior and media choices reflect their interests in money management, travel, computers and gourmet foods.



Mosaic Segment #5 – American Diversity



An ethnic mix of middle-aged couples, singles and retirees with average educations and middle-class incomes from blue-collar and service-industry jobs. Many are older Americans who have already exited the workplace.

They enjoy

- ✓ reading books and newspapers
- ✓ going to movies and plays
- ✓ socializing through fraternal orders and veterans' clubs.

Prefer traditional media tastes such as enjoying TV news, movies and game shows as well as business and home-oriented magazines.

Conservative in their politics and fashion



Mosaic Segment #9 – Rural Villages & Farms



Representing America's agricultural and mining communities, Rural Villages and Farms is a collection of five low-density types filled with middle-class families and couple of varied ages.

They enjoy

- ✓ maintaining tranquil lifestyles,
- ✓ unpretentious homes,
- ✓ Do-it-yourself activities,
- ✓ Country music,
- ✓ fishing,
- ✓ hunting,
- ✓ camping and
- ✓ motor sports.



Who is the LTC Customer?

Most consumers realize the need by:

- ✓ discussions with family and friends,
- ✓ reading brochures, and
- ✓ meeting with insurance agents / brokers.

Effective marketing approaches vary based on the consumer segment being targeted.



Designing the Right Product ...

To Increase Market Penetration

The Producer Perspective

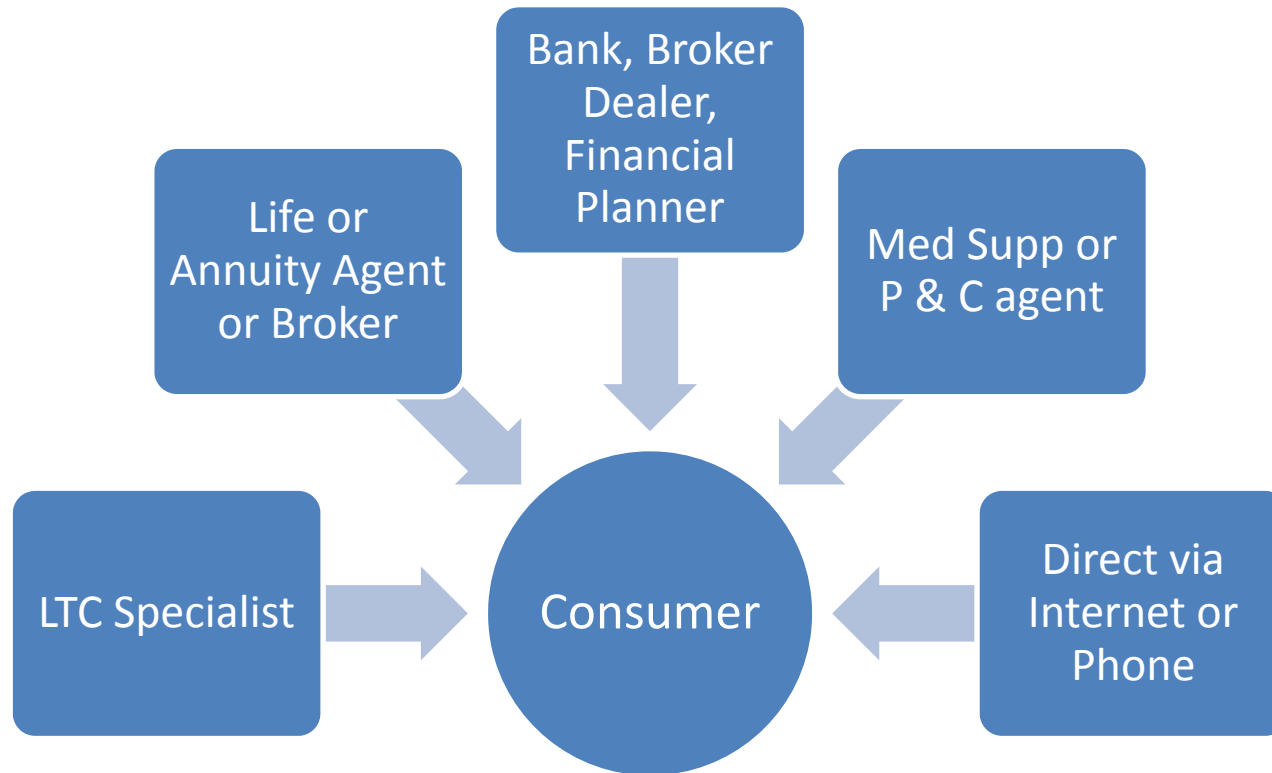
By: Loida Abraham – CEO, LTC Edge
LLC, a member of Amerilife



Designing the Right Product ...

To Increase Market Penetration

- Need to increase access points to consumer i.e. need more producers selling LTC





Designing the Right Product ...

- Challenge is number of LTC producers is declining
- Reasons for decline
 - LTC specialists
 - Successful ones are close to retirement and due to rich commission renewals, can afford to retire comfortably
 - New entrants are few as many organizations no longer maintain LTC agent farms
 - Occasional producers moving to other products
 - As carriers have raised rates or exited the business
 - Economic crisis has made sales more difficult



Designing the Right Product ...

LTC Producer Challenges

- The Consumer
 - Economic crisis has made sales challenging
- The Carrier
 - Financial issues has caused exits or sales slowdowns
 - Fewer remaining carriers: higher rates; tougher underwriting



Producers wonder:

Is it time to sell another product?



Designing the Right Product ...

The Opportunity

- Demographics still compelling
- Consumer need still exists and is growing
- Conning estimate of LTCI market based on 2005 US Census \$100 billion

But can we find product solutions that can meet the producers needs? What are producers' needs and do they vary by distribution?



Designing the Right Product ...

Do products vary by type of distribution?

- LTC specialists
 - Like numerous choices that allow custom solutions
 - Like products that can be spreadsheet
- Occasional producers may prefer simpler designs and fewer choices yet sell based on “experts’ advice” i.e. the LTC specialists



In the end the products sold don't vary too much by distribution



Designing the Right Product ...

Products today – are they too complex?

- Results of Distributor interviews

- All of the distributors interviewed agreed that product complexity was not the issue. They felt that this was easily overcome with good educational presentations and tools that simplified product choices.
- Real concern was the process

“We make it difficult for someone to buy long term care insurance. There is a growing trend towards sales over the internet – no longer over the kitchen table yet applications are 30 pages long.”



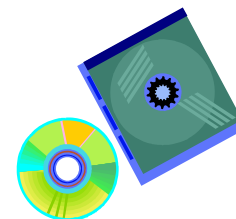
Designing the Right Product ...

Why is the process difficult and can it be simplified?

- Today's process is not easy due to the:
 - Need for more in depth underwriting e.g. long applications and multiple underwriting tools
 - Heavily regulated industry to protect senior citizens resulting in many disclosure forms, multiple signatures and agent certification reqts



***Simplify using technology and
Third party vendors***





Designing the Right Product ...

Which product trends are appealing to producers ?
Cash, Face amount, single premium, increasing premium, monthly benefits, calendar elimination period, other ?

- Results of Distributor interview:
 - Most valued: 3% compound especially at younger ages, Shared Care, Limited Pay, Return of Premium
 - Least valued – Restoration of Benefits



Producers value lower cost options and guarantees



Designing the Right Product ...

How is the economic crisis affecting LTCI products?

- Results of Distributor interviews:
 - Question why products today have to have 5% compound; Or why benefits have to be rich, comprehensive and the total package? Why does insurance have to pay for everything?



***Need for good value coverage and the
“smart buy”***



Designing the Right Product ...

Distributor Interview: Trends in LTC Products

- Different solutions for inflation features
- Benefit “bucket” with no monthly benefit
 - Challenge for some producers: can’t spreadsheet
- Companies no longer offering unlimited benefits
- Employer sponsored plans with simplified underwriting





Designing the Right Product ...

Distributor Interview:

Trends in LTC Products

- Insurability option
- Cash – viable option
- CLASS Act – need wrap around
- For younger consumers, need temporary coverage; won't consider permanent until they walk into a hospital



Producers ready for new thinking



Designing the Right Product ...

- Summary of New Product Goals:
 - The Smart Buy
 - Producers need products that can be described as a wise use of their clients' spending dollars
 - May not be rich, comprehensive or complete in benefits
 - But offers coverage that meets benefit needs at a price that meets clients' budgets
 - Easy to Sell and Buy
 - To get occasional producers into the LTCL market, need products that can be easily understood and explained



Designing the Right Product ...

- Summary of New Product Goals:
 - Easy to Sell and Buy
 - To get occasional producers into the LTCI market, need products that can be easily understood and explained
 - Use of marketing software that can help explain benefits and simplify product choices
 - Occasional producers particularly banks, broker dealers, annuity, med supp or p & c agents have challenges with LTCI underwriting – long and some consider invasive
 - Use of third party vendors, direct app over the internet or advanced medical underwriting tools



Designing the Right Product ...

- Summary of New Product Goals:
 - Profitable for Carriers
 - Producers want to know that the products being marketed are financially sound for the carriers
 - They need the carriers to be here to stay for the long term
 - To ensure that the claims will be paid in a great service environment
 - And that as producers continue to invest their time and effort in learning and marketing new products, the carrier will still be in the market



Designing the Right Product ...

- Summary of New Product Goals:
 - New thinking
 - Producers are ready for new products that will widen the net of consumers willing to buy LTC
 - Recognize that today's products have a limited target consumer market
 - Affluent, ages 45 to 57, meets today's tough LTC underwriting standards
 - Looking for new ideas that will improve overall market acceptance



Designing the Right Product ...

Strong call for new thinking to achieve market acceptance - producers ready for innovation

Blue Ocean Strategy

“Goal is not to out-perform the competition in the existing industry, but to create new market space or a blue ocean, thereby making the competition irrelevant”



Designing the Right Product ...

To Increase Market Penetration

American General – A Case Study

By: Jay Drucker – Vice President, Accident
and Health Business Leader



WHY WAS 2008 A GOOD TIME TO ENTER THE MARKET?

- **Aging baby boomers' need for asset preservation**
- **Top 3 carriers had 56% market share**
 - Producers looking for a high-quality carrier alternative
 - No new entrant in recent years
- **Risk Management had stabilized**
 - Products no longer lapse supported
 - Well established underwriting standards
 - Appropriate industry rating of inflation protection
 - Tax qualified plans have standardized benefit triggers
- **Foundation of Asset Preservation Strategy**
 - Combo Products (Life/LTC & Annuity/LTC)
 - Accelerated Benefit Riders to UL



CONSUMER ATTITUDES ABOUT LONG TERM CARE

- 71% of buyers had incomes over \$50,000
- Over 75% of buyers included some form of inflation protection
- Most important reason for buying is asset and estate protection followed by desire to avoid dependence
- Agent recommendation and insurer reputation are reasons cited for purchase of a particular company's policy
- For non-buyers, cost is the most significant barrier to purchase
- Home Health Care coverage is the most appealing product feature
- Over 60% of buyers are college graduates

LIMRA Study 2005

-AHIP Study 2006



PRODUCER ATTITUDES ABOUT LONG TERM CARE

- **Producers are optimistic that the LTCI Market will expand**
 - Changing demographics
 - Increased consumer knowledge and awareness
 - Potential government action
- **Producers are attracted to a carrier for**
 - Ease of doing business
 - Reputation of a company
 - Name recognition
- **A new carrier must differentiate their product offering from the competition to attract activity. Simply offering a lower priced product will only raise skepticism**
- **The predominant sale is 3-5 year benefit periods. Lifetime benefits are being sold less frequently due to cost**
- **Independent agents are dependent on wholesalers for product, market guidance and support**

American General Producer Focus Groups (LIMRA 2007)



WHY DID WE BELIEVE THE MARKET WOULD GROW FOR LTCI?

- Demographics of the aging boomers
- National LTC partnership will create positive press for LTCI
 - Products will be designed to meet state requirements
- Market stability in rating and underwriting
- Baby boomers recognize need through service utilization by their parents



WHY DID WE BELIEVE AMERICAN GENERAL COULD CAPTURE THE MARKET SHARE?

- Existing Independent Marketing Organizations (IMO's) currently marketing LTCI
- A++ rating and name recognition of parent company (AIG)
- Ability to expand distribution through LTCI specialist IMO's
- Producers open to a quality new entrant
- Product differentiation
- Cross-sell opportunity with in-force Life Policyowners



RISK MITIGATION

- Hire a full-time LTC Actuary and engage outside consultant for product design and pricing support
- Limit Liability by not offering an Unlimited Lifetime Benefit
- Product will be priced with Conservative Lapse Assumptions
- Select an experienced TPA to administer the business
- Hire an experienced LTC Underwriter to help establish the underwriting manual and work with the TPA
- Regular reporting from TPA with diligent corporate oversight



PROMOTION CAMPAIGN

- Company booth at relevant industry meetings
- Mailing to our current distribution
- Advertisement in industry trade magazines
- Webinar introduction (promoted in ads and mailings)
- Road shows for key distributors
- Attend NMO and IMO meetings to introduce product
- Lead Generation mailing to selected life policyowners where applicable



THE AMERICAN GENERAL LTC DIFFERENCE

The 3 “P”s

Product

- ❖ Unique Features
- ❖ Simple with Value
- ❖ Flexibility

Process

- ❖ Launch Pad (e-signature)
- ❖ Partner with LTCG

Payment

- ❖ Expanded Ways to Pay
- ❖ Agent compensation like no one else



THE TSUNAMI HITS, SEPTEMBER 2008

- **Parent Company (AIG) Problems**
- **All new initiatives on hold**
 - Administrative Platform complete
 - 40+ states approved
 - Internal staff hired and in-place



DECISION TIME, JUNE 2009

Go forward with January 2010 release or disband effort?

- Administrative build cost already expensed
- Limited additional cost to release the product
- Recognize issues with parent company reputation
- Market has shrunk since 2008
- Distribution partners have moved on



THE DECISION - GO FORWARD, JANUARY 2010

- **Reduce Sales Expectations**
- **Reduced Marketing Budget**
- **Slow and Steady**
- **Work with select group of IMO's**



LOOKING BACK AFTER 1 YEAR – CHALLENGES TO OVERCOME

- **Bailout Hangover**
- **IMO and Producer Comfort Zone**
 - Familiar with current products
 - Familiar with current administration
- **Overcome Spread Sheeting**
 - Demonstrate the value of our difference
 - Apples vs. Oranges
- **Remain Patient**
 - This could take a while