Understanding Short Term Care Insurance

A Product Introduction

By Ron Iverson

To all Prospective STCI Producers: The arrow points straight up for you to become involved.

The information in this guideline is not a blueprint or a toolkit for your success in writing Short Term Care Insurance (STCI). I have developed other materials for marketing the product—in fact—a complete themed marketing approach. This guideline is designed to be an educational overview of the product. Each company will have their own marketing and underwriting specifications, so in any case company requirements prevail, but these few pages will provide you with specifics on the market and how to understand the product and the value of the product.

For years I have said that STCI is the nation's best-kept insurance secret. I make that claim because during the mid-1990's my General Agency sold more STCI than we did Long Term Care Insurance (LTCI). Not by premium volume, but by app count. And…we got 90% of the STCI apps issued, and less than half of the LTCI apps issued. After I sold my agency in 1999, the new owner chose not to emphasize STCI. I refer to this incidence to let you know ***the product is not new—it has just been ignored***, while most of the nation's emphasis has been on LTCI.

Since so few agents have known about STCI, the result has been that literally nobody in the public has been made aware of the product. Unfortunately, companies have not really promoted the value of STCI, and, by my last count, only seven companies offer the product. That, my friends, ***opens an incredibly exciting opportunity for you—a lack of competition.*** When is the last time you didn't have to compete with a lot of other agents in selling your chosen insurance products?

I have developed a theme for my producers based on an actual event. One of my agents received a call from a lady one day who was extremely agitated. Her statement was, ***"We can't afford Long Term Care Insurance, but nobody told us about Short Term Care Insurance! Why haven't YOU told us about it?"*** So, needless to say, we had a wakeup call, and had to admit we weren't tending to some of the important needs of our clients.

In short, we were writing several million dollars worth of Medicare Supplement coverage each year, but were failing to mention that we could also offer Long Term Care Insurance and/or Short Term Care Insurance. You may have found yourself in a similar situation. By providing for one need, you may have been overlooking another.

The inability to get LTCI policies issued caused a great deal of anxiety for the producers who worked in my agency. And, you will remember, LTCI was really in its infancy at that time, so producers lost interest in promoting and selling the product, and didn't wish to continue to represent the LTCI market. Those of you currently in the LTCI market know that underwriting has toughened up even more since then, for a variety of reasons, which we will take the time to discuss at the end of this guideline.

Some agents, who decided to concentrate on being a "full service" agent, grabbed the opportunity and began writing Short Term Care Insurance. They were successful, with, again, a small number of agents producing the majority of the apps. That seems to validate the trend I have seen in 42 years in the insurance business—that some people pick up on a product, run hard with it, and are successful--while others ignore the opportunity and thereby limit their own service, as well as their income.

What's the lesson here? Simply, that if producers don't know about Short Term Care Insurance, how can they be expected to present it to the public—their clients.

So, where do we go? Where do we go to learn the basics of this exciting product and its market? This paper will give you the needed background, and, hopefully incite you to join in this incredible opportunity. If you are familiar with the "Senior Market," you will already have much of the knowledge to succeed in STCI. If you have been selling Medicare Supplement, Medicare Advantage, LTCI, Life Insurance, Annuities, or Final Expense you already have a file full of logical prospects.

As we start, please remember these three important background items:

1) **STCI has nothing to do with Medicare.** It can be sold to an age as low as 18, and the most logical prospects are in the 50+ age group. The plans pay regardless of how Medicare treats "skilled care," (which incidentally is becoming harder to qualify for), and also covers the kinds of care not covered by Medicare—intermediate and custodial. ***So your market is far and away greater than simply Medicare aged people.***

2) **STCI producers do not have to qualify to sell STCI,** as LTCI producers have to do to sell LTCI. LTCI, in most states now, involves "partnership programs" and in order to qualify to sell LTCI, you must take CE courses covering partnership plans. This has caused some producers to avoid LTCI training and sales. But, since STCI has nothing to do with partnership plans or LTCI, ***this training is not necessary in order to sell the product.***

3) **STCI is an ideal fit for the policyholders you count among your Annuity and Life Insurance clients.** Why? Two reasons. First—STCI can ***help protect the annuity or life policy from drawdown*** related to nursing home needs. What is the advantage for a person to pay for Long Term Care by withdrawing from their cash value life insurance or annuity—***they are paying for care needs with their own money—and that is not insurance.*** Secondly— the person who has the financial ability to purchase an annuity or a life insurance policy probably has the financial ability to purchase STCI, while they might not have the finances needed to purchase full-blown LTCI.

At this point, I am going to use a "Q and A" format to assist you in answering questions about STCI. These "Q's and A's" are a compilation of questions which I have heard from ***producers who have an interest in STCI, but didn't know where to start.*** So, let's cover the ground needed to help you through the learning process.

Some Q's and A's regarding STCI:

Q1—Should STCI be considered a substitute for LTCI?

A1—Definitely not! They are two different products, and an agent who would indicate that STCI is a better answer to Long Term Care needs is simply derelict in his or her responsibilities.

Q2—What are the main reasons people would want STCI?

A2—There are three.

1) First, regardless of all the solutions agents may propose to prospects to interest them in LTCI, **there are many people—actually most people—who simply cannot afford comprehensive LTCI coverage.** As a result, many people are **left feeling that there is no alternative to LTCI,** except to wait until such a time as they can go on Medicaid to cover their long term care needs, which, of course, includes the "spending down" of the assets they do have. STCI can provide up to 360 days of coverage at a more affordable price.

   When you consider that about **83% of nursing home admissions** (US Department of Health and Human Services study by the CDC, "National Nursing Home Survey," Series 13, No. 152, June, 2002—latest data available) **are dismissed in less than a year**, it makes sense to provide STCI coverage for the most likely occurrence. A California study in 2009 found somewhat similar use—**76% of nursing home residents stay less than three months, and an average of 90% were dismissed in less than a year.** These numbers bear out the need for STCI, and verify the need for a product which we have been ignoring and overlooking. Would 9 out of 10 people liked to have known that their most likely needs could have been satisfied with a STCI policy of 360 days?

2) Secondly, **many people cannot medically qualify for LTCI.** Pre-existing conditions play a major role in getting policies issued. **This is not meant to infer that STCI companies will overlook serious medical pre-existing conditions. They won't—for obvious reasons**. But, while LTCI may have as many as forty pages to an application, STCI apps are normally three to five pages, and will have a basic ten to fifteen health related questions, possibly including prescription drugs.

   Those questions rule out severe medical conditions and simply state that if the proposed insured answers "yes" to any of these medical questions, the agent should not forward the application. So, immediately, **the agent knows up front whether or not he or she has a logical candidate,** in which case, the agent and the applicant, do not have to wait six weeks to two months to receive a declination. Obviously, STCI underwriters take other factors into consideration, and **STCI is <u>not</u> a guaranteed issue policy**, but the total underwriting experience is less involved than in underwriting LTCI.

3) **Another important factor for LTCI applicants is the use of the "Suitability Form,"** which is now required in most states, and above all, by every company in the LTCI business. The Suitability Form is reviewed by company underwriters to indicate whether or not the applicant is going to be financially able to spend

$2,000-$4,000-$6,000-$8,000 per year for several years to maintain the premium payments for the LTCI policy.

Because STCI policies (due to their shorter length of coverage options) may cost as much as 70% less than a three year LTCI policy, **there is no requirement for using a Suitability Form for STCI.** The expense risk factor for the STCI company is much less than for the LTCI company. Thus, lower premiums indicate a greater likelihood that **the STCI applicant will be able to afford premiums during the life of the policy.**

Q3—Is prior hospitalization required?

A3—No. Remember that STCI is not related to Medicare, or Medicare qualifications for skilled care, therefore STCI is independent of any Medicare restrictions for receiving care. **The policyholder may enter the nursing facility directly from their home.**

However, for Medicare recipients, there is an important factor involved. Because of Medicare's system of DRGs (Diagnostic Related Groups), it is possible that a person will be denied access to the benefits of Skilled Nursing Home care after a hospital stay because the DRG doesn't exactly fit the "medical necessity" mold. Therefore, STCI may be the only policy to cover the nursing home claim that may arise.

Q4—Is nursing home coverage the only type of care that the STCI policy will cover?

A4—It depends on the company issuing the policy. Of the two companies I represent, one chooses to cover nursing home expenses only—but at any level of care. The other covers nursing home expenses and assisted living expenses, and can cover Home Health Care by rider.

Q5—Is there a difference between Home Care and Home Health Care?

A5—Yes. <u>Home Health Care</u> **means professional care** received by a doctor; nurse; or physical, occupational, or speech therapist. **<u>Home Care</u> means care of a personal nature, provided by a personal caregiver**—one trained to provide care of a personal nature—such as Activities of Daily living, which, in insurance parlance, means assistance with eating, bathing, dressing, transfer, or continence. **This is an important factor, which sometimes is misunderstood by insurance agents, and unfortunately, even those in Medicare insurance sales.**

Q6—Does the STCI product go by any name other than "Short Term Care Insurance?"

A6—Yes, each company will name their product by which ever name they choose, but there are four common descriptions of the need for STCI. They are: **Recuperation, Recovery, Rehabilitation, and Convalescence.** You will find those descriptions are the basis for any STCI product—because they are the most significant reasons people need care insurance coverage for a short term. I use an old saying, **"Remember that it takes only one day to get the bad news, but it may take months to recover."**

Q7—Does STCI pay in addition to an individual Major Medical policy, group health plan, or Medicare?

A7—Yes. There are **no coordination of benefit clauses** in the policies of the two STCI companies I represent. The customer chooses the plan, pays the premiums, and the companies pay the bills submitted by the provider up to the daily amount of the plan chosen. A "Plan of Care" prepared by a healthcare professional may be needed.

Q8—LTCI policies cover activities of daily living as well as cognitive needs. Do STCI policies cover these needs as well?

A8—This is a teaching moment. Before Tax Qualified (TQ) LTCI policies became available several years ago—and today represent nearly all of the LTCI policies currently written—**there was a third trigger for obtaining benefits.** It was known as **"Medical Necessity."** When TQ policies came out, **Medical Necessity was removed** as one of the "triple triggers" for qualifying for benefits.

However, the STCI policies of the two companies I represent **include Medical Necessity as one of the triggers for obtaining benefits, in addition** to ADLs in a nursing home or assisted living facility, and cognitive needs in either setting. This is an important feature. **Medical Necessity, as a third trigger, is included** if the insured requires medically necessary care as determined by a physician due to a covered injury or covered sickness.

Q9—What are examples of covered injuries or covered sickness?

A9—They are quite common. For instance, Americans have 1.1 million **heart attacks** per year. But, many of those people require further medically necessary care after the main event, and many "heart attack survivors" are able to return to work, after a period of recuperation, convalescence, recuperation or rehabilitation. However, **these needs may require care for months**, and **STCI is designed to cover the cost of those needs.**

Stroke victims are particularly affected by a lengthy recuperative and rehabilitative process. There are two significant points of knowledge here. **Stroke victims are surviving at a greater rate, but stroke incidence is up—particularly in the 40+ age bracket.** Again, there are important needs involved with recovery which may take several months, and **STCI is designed to financially help those with recovery needs.**

Cancer numbers are scary as we all know. In relation to diagnoses, the incidence of cancer is up, but the death rate is down. The former is bad news, and the latter good news. But what brings the death rate down? Obviously, advancements in science and treatment have been discovered and employed. **However, again, the recovery process may be slow,** and people can find that their medical expenses have been covered, **but their care needs during convalescence are not.**

Now for some interesting news—**knee replacements are up 130 times in 30 years**, and **hip replacements are becoming more common in the baby boomer demographic.** In other words, the bar has been lowered from Medicare age people needing knee and hip replacements, to an **ever increasing younger age group. Age 50 to 65 replacements are becoming common,** but again, who stands to pay for what has become a long period of recovery for some people—or a complication that sets in after the procedures have been completed? **STCI is the obvious choice.**

Another well-used insurance phrase I like to use is, **"The big question remains. Who pays for surviving? Who pays the care costs after the event? Would you rather write checks for your recovery, or receive checks for your recovery?"**

Q10—Are Alzheimer's patients able to receive benefits from an STCI policy?

A10—Yes. Alzheimer's disease is covered as a "Cognitive Impairment," just as are other cognitive diseases, such as Parkinson's. They are covered the same as any other diseases. We all know that cognitive diseases are normally long term complications, but **the availability of coverage even for a short time (360 days)** still fills an important gap in the patient's financial needs.

Q11—What length of coverage is available with STCI?

A11—The choices are varied. The two companies I represent allow for the prospect to choose from a range of **180 day, 270 day, or 360 day coverage.**

Q12—What amounts of coverage may an applicant chose for their daily benefit?

A12—Again, the two companies offer a choice of daily benefits ranging from **$50 to $300.**

Q13—What are the elimination periods before benefits are payable?

A13—The elimination period (deductible, so to speak) is normally **0 or 20 days.**

Q14—Is inflation protection available?

A14—This depends on the company. One offers 5% simple, the other offers 5% simple, and 5% compound.

Q15—Are the policies designed with a restoration of benefits available?

A15—Yes. Companies have a slight variance on their interpretation of Restoration of Benefits, but basically a six-month claims free period, after the first claims period, will restore the benefits at **100%, which means a 360 day benefit period can possibly become a 720 day benefit period**—up to the limits of the lifetime maximum benefit.

Q16—What are the age limits of STCI policy availability?

A16—It depends on the company. One of the companies uses an issue age band from age **18 to age 85.** The other uses an issue age band from **50 to 79.**

Q17—What are the commissions like for STCI production?

A17—The commission structures for the two companies are similar. Both offer compensation **similar to commissions on the old series of LTCI policies.** But, I am going to suggest that **you will be amazed at the renewal or residual commissions**. The renewals are more in line with Medicare Supplement and Medicare Advantage products, in that they continue far after the initial first-year commission. Would you believe **ten years, then through the eleventh year,** for as long as the policy remains in force? **Now, do I have your attention?**

There are other features available depending on any company you would choose, but these are the most frequently asked questions about STCI, and should be enough for you gain a basic understanding of the product.

At the top I promised to discuss some of the problems facing the LTCI industry. Please don't think I am "picking on" the industry. I'm not. In fact for nearly twenty years I have been a major supporter of the industry through giving seminars nationwide, writing books, pamphlets, bulletins, newsletters, and designing marketing materials to assist producers in selling LTCI. But, during the past few years circumstances have played a role in plunging uncertainty into the LTCI market, and it has caused major players to reevaluate their place in the world of LTCI. **This is no secret.**

So, what are the circumstances? First, it appears that some policies written in the last decade of the 1900's (and in some of the early 2000's) that policies were underpriced—in other words, the "street rate" charged to cover future claims was too low. That's the beginning, but is only part of the problem.

Other factors are 1) An unexpected high persistency rate for LTCI policy owners—those who have purchased the product are keeping it in force—as high as 95% keep their policies. This creates more existing policyholders now moving into a claims picture, which the company had counted on dropping their coverage. 2) A dismal return on investment since 2008 has plagued the companies' investment portfolios by not allowing returns on investment to keep up with anticipated loss experiences. This has caused rating services such as Fitch and Moody's to place "caution" signs in front of the companies who produce LTCI products. 3) The problem has caused some companies to raise the rates on existing policies, or offer alternatives to the policyholders to reduce their rates by manipulating the coverage choices or amounts. 4) Another factor is that **the combined problems have caused underwriting to tighten up for new purchasers.**

Perhaps the combination of circumstances can be passed off as a temporary problem, but that is wishful thinking. **The companies involved are major players**, each responding in one fashion or another—pulling out of the market, raising rates, eliminating high end offerings such as lifetime coverage, eliminating 5% compounding benefits—and even coming out with new products that will revert to male/female rates rather than unisex pricing. This is bound to create even more hardship for female clients because they make up about two-thirds of new claims and receive about two-thirds of benefit dollars.

As I said above, nearly all LTCI companies have been impacted, but when major players such as Genworth, MetLife, Guardian, Unum Group, Allianz, Prudential, and John Hancock are involved, the threat of uncertainty to the current landscape of LTCI is real. **Very real.** If this situation has been tough on the companies, **it has been even harder on producers.** There a few large national general agencies who have developed a direct targeted market approach for their producers, but most are somewhat on their own, and struggle to get their message across to a wide swath of eligible prospects.

If you are currently selling LTCI, you have been through the drill. You are aware, and have possibly been discouraged in continuing to represent the LTCI market. You may even be seeing new (lower) compensation structures. **But you were probably unaware** that you can solve at least part of the problem—with up to 360 days of Short Term Care Insurance coverage. As I said at the beginning, **STCI is not a replacement of, nor a substitute for, LTCI, nor should it be viewed as such.** But the opportunity to add STCI to your product portfolio, and present a less formidable challenge are in front of you, and your choice.

All you have to do **to gain logical prospects, is to look at the Baby Boomer demographic. Imagine nearly 78 million people born between 1946 and 1964,** with the first of them turning 65 at the beginning of 2011. Medicare Supplement and Medicare Advantage producers have been blessed with a huge continuing stream of prospects for another sixteen years. Who in the insurance business ever had such opportunities? **Well, look around—the same people, and even those at a much younger age—are available to you. They just don't know that YOU know how to solve care problems.** Considering the fact that most nursing home care dismissals are less than a year, you can be in a position to solve their **most likely** care needs.

In closing, I have never been able to figure out why LTCI producers would not have both products, STCI as well as LTCI, in their kit, for those prospects who are not going to fit the LTCI mold. **Nor do I understand why ANY producer would limit his or her abilities to serve their clients and create a comfortable income stream for themselves.**

But, then, if you didn't know about STCI to begin with….

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