Chapter 14

Long-Term Care Insurance Benefits at the Worksite: The Employee

Once an employer has agreed to sponsor a long-term care program in the worksite, your job has only just begun.

Voluntary programs come with a participation requirement. Generally, the more participants, the more lenient the underwriting process. Insurers require certain minimum threshholds to avoid antiselection and poor claims experience. Spreading the risk is an age-old insurance concept, and it certainly applies in the world of simplified issue policies.

Participation requirements may vary depending on the size of a group. Of course, if an employer is buying a basic level of coverage for everyone, then the buy-up, or upgrade, often comes without additional participation requirements, because all employees are covered in some way.

On a recent voluntary case involving seventy lives, the insurer asked for a participation rate of 10 percent with a minimum of fifteen lives. Because 10 percent would be only seven lives, the actual required participation percentage was double that or 20 percent. (To obtain some level of simplified underwriting, carriers today generally require a minimum of ten submitted employee applications[1],[2].)

Such underwriting concessions can be huge. Consider that full underwriting presently includes a complete application, medical records (typically from the last five years), a prescription drug screen, a telephonic health interview, and possibly a face-to-face exam to administer cognitive questions and collect blood and urine.

By contrast, simplified underwriting may enlist an abbreviated or short-form application which probes far less or includes fewer knockout questions, and may only employ one or two further screens. This means a worksite long-term care program may be the best—or only—chance an employee has to obtain LTCI.

For the novice advisor, ten to fifteen applications may not seem like a lot, but when you go in cold to an employee lunch hour to discuss this benefit and it's the first time the workers are hearing about it, fifteen applications will soon seem like a mountain to climb. We've seen a benefit broker come back with zero applications out of a census of one thousand.

The importance of a good educational campaign for the employees cannot be overstated. Each carrier will have marketing materials to help you, including payroll stuffers, posters to put up in common areas and approved emails to provide to human resources to send. If you provide some concise background about the importance of long-term care planning in advance of the enrollment date, you stand a better chance of reaching the minimum number of lives required.

This education is important. Long-term care insurance prices may not be minimal (it's not a one or two dollar a week contribution); thus, it is vital that the need be established and that employees understand the real value of what they are buying.

The educational material that you put together for employees should also be sent home to spouses, partners or other family members. Employees are often amenable to making this coverage available to their family members. This is unusual for an employee benefit, and many perceive it as a good idea. For employees in their twenties and thirties, family members may be your only sales opportunity (e.g., parents, grandparents, in-laws, etc.). From the employer's viewpoint, this is an important element of the worksite program: the boss is trying to cut down on presenteeism, and covering extended family is one way to accomplish this.

Employers will generally allow you to conduct an on-site employee meeting (or multiple meetings, depending on the size of the firm) to explain the advantages of this benefit. You should also try to arrange an after-hours or Saturday program for spouses and family members. It's a great opportunity to expand your potential audience and meet the participation requirements of the case.

Knowing the Employee

Your success rate will increase if you understand the employee mindset today. This decade is not the same as 2000 or earlier. In the grip of an economy struggling to rebound and find its footing, employees are uncertain about the length of time they will have to work before being financially secure enough to retire. This is important to understand, because you can demonstrate why long-term care insurance can help reduce the amount of money needed for retirement.

In its 2014 Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) found that Americans' confidence in their ability to afford a comfortable retirement had only just begun turning around after the plunge it took between 2008 and 2013. The proportion of workers not at all confident about having enough money for a comfortable retirement remained at 24 percent (statistically unchanged from 28 percent in 2013, the highest level measured in the two decades that EBRI has been conducting this survey). Other findings include:[3]

1. In spite of this anxiety, only 44 percent of respondents said they or their spouse had actually tried to calculate the amount of money they would need in order to live comfortably in retirement. This number hasn't changed much in the last decade.

2. Workers are showing signs of renewed confidence. The percentage of workers not at all confident in their ability to pay for medical care and long-term care have both fallen (the former down from 29 percent in 2013 to 24 percent in 2014, the latter down from 39 percent to 32 percent).

3. Increased confidence is observed almost exclusively among those with higher incomes (over $75,000) and those who participate in retirement plans such as IRA's (only one in ten not at all confident versus half of workers without).

4. Sixty percent of workers report the value of their savings and investments—not counting the value of the home or any defined benefit plan—at less than $25,000. Of this group, 36 percent say they've saved less than $1,000.

5. In 2014, 15 percent of all workers surveyed planned to postpone their retirement age (with "the poor economy" cited as the primary reason by one quarter of respondents). The percentage of workers who expect to retire after the age of sixty-five has crept steadily upward over the years (from 11 percent in 1991, 21 percent in 2004, 31 percent in 2009, to 33 percent in 2014), with some now answering they'll "never retire".

The Great Recession forced employees who had faithfully contributed the maximum to their 401(k) plans not only to cut back on their funding of this vital retirement vehicle, but also to raid it to help pay for basic expenses. Plan administrators Fidelity Investments and Great-West Retirement Services saw double-digit spikes in hardship withdrawals and bumps in loan requests to help pay for mortgages, credit card bills, utilities, and groceries.[4]

In addition to taxes and withdrawal penalties for preretirees, the depletion of retirement savings and its effect on the future plans of workers forced to do this are major concerns.

This money shortage has also left many workers in a savings quandary: retirement or the children's education? Your Baby Boomer clients who are caught in the middle (caring for aging parents and saving for their children's own secondary education) are sandwiched by these twin forces. You know these folks by the name "the Sandwich Generation". Some are cutting back on retirement contributions to focus in the short-term on the college education fund. This is a common practice despite many analysts' warnings. The financial advisor's recommendation is generally to maximize the retirement savings for the year before putting money away for college.[5]

One can always borrow money to pay for college. The same is not true for your retirement, unless you count a reverse mortgage, a practice that has been hard hit by the poor real estate market and tightening regulations. Saving as much as you can for retirement must begin early—a lesson the Boomers are learning the hard way.

But that's just living expenses. There are still the significant matter of health care costs to contend with. One study pegged the burden for Medicare out-of-pocket medical expenses alone at 39.2 percent of a senior's Social Security income.[6] And this did not include long-term care expenses. We can begin to see why workers are not very confident about retiring comfortably.

It is important to recognize the financial funk that many employees are experiencing as you position a long-term care insurance program before them. Handled poorly, LTCI looks like just another expense. Instead, you need to show how LTCI is an asset which can help alleviate their concerns. For one thing, it reduces the savings needed by and for retirement in order to defray the cost of unexpected extended care. Coverage for loved ones also decreases chances that the employee will have to function as a caregiver, a situation that could collapse an already-fragile financial state.

For employees to add long-term care insurance to their portfolios, it should be demonstrated why they should put hard-to-come-by discretionary dollars into this product. Their understanding of the return on investment may prove the key to a successful enrollment.

Group Long-Term Care Insurance Sales to Date

As you prepare to enroll employees in a group long-term care insurance voluntary offering, some numbers based on group long-term care insurance sales to date should be kept in mind. (See Table 14.1.) Of course, as the Securities and Exchange Commission is fond of saying, "past performance is not indicative of future results." But history can be helpful when anticipating the future, so the information is worth having.[7]

Table 14.1. Percentage of Employees Participating in Employee Benefit Programs[8]

Benefit	*2014*
Life Insurance	97%
Retirement Benefits	76%
Medical Care Benefits	73%
Paid Leave (Vacation / Holiday)	77%

Table 14.2. Employer-Sponsored Long-Term Care Insurance Sales by Issue Age[9]

	2009	2010	2011
Under 35	2%	3%	3.5%
35–44	5%	8%	8%
45–54	24%	25%	26.5%
55–64	52%	50%	46.5%
65–74	16%	13%	15.5%
over 75	1%	1%	0.0%

By contrast, a voluntary long-term care program might expect enrollment rates from 1 to 2 percent on the low side to 8 to 12 percent on the high side. We will explore the factors below which affect a successful enrollment. Obviously, an employer-pay program features enrollment of precisely the employees chosen, which could mean everyone, or a subset (also known as a carve-out).

Either way, the worksite market has historically trended toward a younger buyer than the individual market for obvious reasons (see Table 14.2). From this we often see smaller average premiums. This extends to the carriers who focus on multi-life: they may sell just as many lives as their counterparts, but half as much premium volume.

The majority of buyers in this market are under forty-five years old, so do not think you need a workforce that is older on average. They generally buy a three-year benefit period with a ninety-day elimination period. This will be important when you review the plan choice offerings with a specific group.

It also helps to discuss these figures with the Chief Executive Officer (CEO), Chief Financial Officer (CFO), or Human Resources (HR) representative you are dealing with in the firm. They may already have read or know a bit about long-term care insurance with some preconceived ideas regarding their wishes for a benefit package. It is important to listen to what they are saying not only to help you make a good recommendation, but also because you must earn the trust and buy-in from the company decision-makers before you can move forward.

The Multi-Life Long-Term Care Insurance Offering

You've secured approval of your voluntary long-term care insurance plan. You've done a little homework on employees' frame of mind and what's been purchased in the past during such enrollments.

What should a multi-life long-term care insurance plan offering look like?

For a voluntary offering, more often than not you'll wish to offer a choice of plans, which will be available to all employees working at least thirty hours a week (occasionally twenty) and to family members residing in the United States or its territories. Family members include spouses (including domestic partners, civil unions, etc.), siblings, children, parents of employee or spouse, grandparents of employee or spouse, siblings of the employee's spouse, the spouse of the employee's sibling, the spouse of the employee's spouse's sibling, and the spouse of the employee's adult children. The program can sometimes extend to company retirees and members of the Board.

If you are able to see all family members, the case should take some time to enroll. If you can see only the spouse and deliver information to both sets of parents, it will be a solid effort. Still, you will be given an enrollment window between sixty and ninety days (which typically begins anew for new hires). Depending on your initial success, you may be allowed an annual re-enrollment window. The shortness of this period should be used to your advantage to create urgency: without it, employees are likely to linger, delay and postpone.

Issue limits may be capped under a worksite program (especially if operating under simplified or modified underwriting rules). Employees who wish to buy up are generally not prevented from doing so, but must undergo full underwriting in exchange.

A hypothetical Bronze, Silver, Gold plan might look something like this:

1. Bronze: Basic long-term care insurance coverage with a daily benefit amount, comprehensive home health and facility coverage, but no inflation rider. This is the least expensive plan, but it does not qualify as partnership-eligible (remember that an inflation option is needed for that, except for people over the age of seventy-six).

2. Silver: Same coverage except it adds a simple inflation choice and switches from a daily benefit to monthly. Also unlikely to be partnership-eligible unless an individual is sixty-one years or older.

3. Gold: Same coverage as Number 2 but with a compounded inflation option. Partnership-eligible for everyone, but it comes at the highest cost.

Other ways to play with such a presentation might be to increase the Monthly Benefit between the three choices ($3,000 per month, $4,500 per month, $6,000 per month) while leaving everything else equal, or increase the Benefit Pool (two years, three years, five years). We could also choose different inflation options (2 percent compound, 3 percent compound, 4 percent compound), or decrease the elimination period (ninety service days, ninety calendar days, zero days). The options really are endless.

Is it a big deal not to have partnership eligibility? For younger participants who buy this type of coverage, the price is likely to be too high for the compound rider, or they will have to buy less coverage. Ironically, these are the folks who need some inflation coverage most because it could be a long time between policy purchase and claim.

Yet the benefit of partnership is the asset disregard during Medicaid qualification in the future, which is predicated on a great many "ifs", not the least of which is Medicaid resembling what it is today. Without a major fix to its financing, the chances of that diminish with every passing year. Ultimately, it is better to have this coverage with even modest inflation than to pass up the opportunity to buy it at all because it lacks partnership qualification.

A wide range of options provides ample opportunity to find the right balance between quality coverage and an affordable premium. But unlike individual kitchen table sales, it's better to reduce choice in the worksite to eliminate analysis paralysis. In terms of the educational materials and the limited time available with each employee, attention is at a premium: the ability to simplify the complex is a valued skill. The key is to deliver this information about choices repeatedly before the actual enrollment. An educational campaign is needed for this.

Educating an Employee Group

Having convinced an employer to let you offer a long-term care insurance program to the employees, your employee education campaign should begin with a letter to each employee (preferably to the home address so as to include family members) including the employer's strong recommendation of this coverage. Remember that it is in the employer's best interest if employees and family members are covered with long-term care insurance, so solid participation is sought.

The letter can be brief, describing the new employee benefit, its value, and that it is being offered to family members as well. It can then urge the employee to attend the employee meeting to introduce the coverage and the enrollment schedule that follows.

Besides the introductory letter, your campaign should include the following elements:

1. Employee meetings: The number of meetings will be based on the size of the firm. Ideally, you'd like to limit attendance to twenty to twenty-five people per session, so a seventy-person group would have three different meetings. If the firm has various shifts, this must be factored into the meeting schedule. If there are multiple locations, meetings should be scheduled geographically. Finally, schedule at least one evening or Saturday meeting to give family members a chance to hear the long-term care insurance story.

2. Communication: A series of messages, once a week until the employee meetings. These should be brief; attempt to put across one concept at a time. Some possible ideas: owning long-term care insurance means less saving for retirement; long-term care insurance can protect assets and income; long-term care insurance helps family

members avoid becoming primary caregivers; statistically, 43 percent of those under age sixty-five utilize long-term care services. Ideally, you'd like to send at least four of these messages; intraoffice email can work well.

3. Mailings: A packet of information mailed to employees' homes. Minimally, this places some information in front of the spouse, if not other family members. This packet can include an invitation to the evening or Saturday meeting intended especially for family members.

4. Focused meetings: Employee meetings scheduled far from the annual benefits enrollment. The annual enrollment has a lot going on, and a new long-term care insurance offering could be lost in the shuffle. Its own initial meeting improves the chances for a successful enrollment and for meeting participation requirements. After the initial enrollment, it can be added to the usual annual enrollment period the following year.

5. Visuals: If there is an opportunity to hang a poster or two about the enrollment, it can't hurt. The company cafeteria, break room, or bulletin board are optimal spots for this promotional material. Insurers typically have this type of marketing piece available.

6. Meeting with management: A separate pre-enrollment meeting with managers and supervisors. If the group is large enough and includes various departments, it is a good idea to schedule a meeting separately with the managers of these areas. Your HR contact can help you with the invitation list for this session. Because these people are presumably influential with their staff members, it is imperative for them to think positively about the product offering. This is not merely another enrollment: its success is important to both employer and employee. Make them consider it a compliment to have been invited to hear about this program first. If possible, have the employer present to introduce the program (and you) in a positive way. This can help keep the pre-enrollment chatter in the various areas of the firm positive. These are the people who will remind the employees to attend the meeting and convey it favorably.

7. Communication of options: Review employees' enrollment options at individual meetings. Also, encourage them to set up appointments for you to meet with family members who cannot be present. Even people who are not interested personally in long-term care insurance may think it suitable for a family member to discuss this need with you.

8. Experiences: Ask whether the individual has been through a long-term care experience or acted as a caregiver in their family. This is a question you should also pose to the HR representative or employer to see whether someone in the firm has already

been touched by a long-term care event. Their story in an employee meeting can be more powerful than anything you say because it comes from a person the employees might know well. It also confirms the message you are trying to convey—that it is important to plan for this potential need well before anything actually happens.

9. Follow-up: Set up one follow-up meeting, if the employer will allow it, for additional questions and answers about the program.

There are of course no absolutes for enrollment. By following most—if not all—of the preceding steps, you will have a better than even chance of success. The benefit broker who nabbed zero applications from the thousand person workforce? He followed none of the above recommendations. By now we've learned a number of critical factors for success:

1. Employer buy-in is key. If the employer is only willing to sign the endorsement form and turn the account over to you with a, "Good luck!" you should turn and run. Successful enrollments are those where the employer enthusiastically has your back, and gives you permission to run a robust marketing campaign (i.e., send letters to employees' homes, send emails, host multiple meetings, allow cobranding of materials).

2. The more touches (e.g., communications) the better. We have statistics that show two to four touches equates to a 4.4 percent participation rate (all other things being equal), while five to seven hits generates a 4.9 percent participation rate, eight to ten hits equates to a 7.5 percent participation rate, while over eleven correlates to a whopping 10.6 percent participation rate.

3. White collar groups perform better than blue collar. For instance, law firms, physician practices, colleges and universities, brokerages, banks and financial firms, skilled labor, engineering, high-tech can all be great opportunities.

4. Stick to the 40/40/40 rule: preferred groups have an average age of forty, an average salary of $40,000 (minimum), and are at least 40 percent male. Deviation from any of these criteria is undesirable from the point of view of the insurance company.

5. We know that employer-paid performs better than voluntary. So do the insurers: This is why participation requirements are so much lower when the employer contributes even a modest amount. For voluntary cases (employee pay), even if the census is very large it can be logistically difficult to succeed without preparation and diligence.

6. Participation in other benefits (e.g., 401(k) or 403(b)) should ideally be greater than eighty. It's a positive sign when employees take advantage of the benefits made available to them and generally show a high take-up rate.

7. Payroll deduction is important when it comes to long-term care as an employee benefit. Our statistics show that initial enrollment can be up to 18 percent higher, and first year retention as much as 25 percent higher than when using direct-billing.

8. It's very important to conduct off-cycle enrollment for LTC insurance. Success can be three times as high then when competing during annual enrollments against pet insurance, group legal, and fighting for the same attention and benefit dollars.

You might also consider taking advantage of an insurer's enrollment team if one is offered for your case. These professionals are practiced at working with employees on a voluntary product. There is likely to be some reduction in compensation for using the carrier's staff, but it could increase the total number of applications considerably—a worthwhile trade-off.

Executive Carve-out

The employer may want to take a different route with long-term care insurance. Key employees may be singled out for more comprehensive long-term care insurance coverage.

As noted previously, this is perfectly acceptable so long as people are not singled out by age or gender. You can establish a key employee class with criteria such as years of service, job title, income, or any combination of these.

Tax law allows the deduction of premiums for Tax Qualified (TQ) long-term care insurance plans (subject to limits), and the employer may like the idea of singling out a few key employees for distinctive coverage. You might propose a relatively robust package of benefits for these key employees or executives. They will be underwritten, but the coverage will be appreciably better than those offered under a simplified issue umbrella.

One of the great things about worksite long-term care is that this does not preclude offering a voluntary program side-by-side to the rank and file. Alternatively, the employer could pay for a base amount of coverage for everyone in the company, while making available an optional buy up for greater coverage. On the buy-up, the employer defines a class of key employees for whom *he* will pay this portion of the coverage as well. Everyone else in the company would have to pay for their own buy-up.

The health of the key employees often dictates the formation of the long-term care insurance offering. If an important member of the company or even the CEO has health issues likely to cause underwriting concern, then simplified or modified issue is the way to go (if possible). If the vital employees singled out by the employer can pass muster with full underwriting, then it won't be necessary to make the tradeoffs associated with SI or MGI.

The carve-out market has worked well for the long-term care insurance industry. The goal of a financial advisor when discussing this matter with any type of business should be to convince the employer to set-up an employer-paid program for his or her key employees. There are many more firms who do not yet offer this employee benefit—it has all the upside any advisor needs to make a splash in the long-term care insurance pool.

Endnotes

1. For very small businesses, one carrier allows five applications (counting spouses), although all must be approved, and the employer must pay 100 percent of the premium for all eligible employees for a defined plan design.
2. It should go without saying that there are other criteria for simplified underwriting as well, including an actively-at-work requirement (e.g., twenty to thirty hours per week), an age requirement (e.g., ages eighteen to sixty-five) which may be more restrictive than retail sales, and benefit limits which are usually more restrictive than full underwriting.
3. Ruth Helman, Nevin Adams, Craig Copeland, and Jack VanDerhei, "The 2014 Retirement Confidence Survey: Confidence Rebounds—For Those With Retirement Plans," EBRI Issue Brief, No. 397, March 2014.
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