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*Count on us for the long term.*

prepared by:

**MedAmerica Insurance Company**

(Home Office: Pittsburgh, PA)

**the benefits of partnership:**  
a long-term care insurance proposal



## the market need, the market opportunity

### Overview

As more Americans move into their middle and senior years, the demand for comprehensive, affordable long-term care insurance continues to accelerate. Consequently, long-term care insurance represents a significant service and business opportunity for carriers that enter the market in a planned and prudent way. For your organization, we recommend a partnership that will allow you to tap the experience and expertise of a leading company in the field of long-term care insurance:

**MedAmerica Insurance Company**  
(Home Office: Pittsburgh, PA)

**Administrative Office: Rochester, New York**

### Indications of growing need and demand:

Each year, millions of Americans will become disabled due to an injury, a chronic medical condition, or simply through the aging process. For most, the need for care will extend beyond hospitalization or rehabilitation. And for the first time, they'll need assistance doing the everyday things they've always taken for granted.

The emotional impact of compromised health takes a heavy toll. And since health and disability insurance do not typically cover extended care in or outside the home, the financial toll can be even greater.

It's especially difficult for those who thought they were prepared and didn't even realize their financial future was at risk.

More than 50% of Americans will need some form of long-term care, either home care or institutional care, at some point in their lives.<sup>1</sup> And the need can arise at any time. In fact, 40% of all long-term care services are provided to people under age 65.<sup>2</sup>

#### ❏ *The Cost of Long-Term Care:*

**Home Health Care:**  
\$50 to more than \$200 a day\*<sup>3</sup>  
(or \$73,000 per year)

**Assisted Living Care:**  
Up to \$50,000+ per year\*<sup>4</sup>

**Nursing Facility Care:**  
Up to \$100,000+ per year\*<sup>5</sup>

\*National average. Actual costs may vary.  
\*These substantial costs are increasing every year.  
According to the General Accounting Office, long-term care costs are expected to triple in the next 20 years.

The average nursing home stay is two-and-a-half years.<sup>6</sup> At an average cost of \$60,000 per year,<sup>7</sup> that can deplete \$150,000\* from an individual's retirement fund. And remember — in 20 years the cost rises to \$450,000.

The financial impact of these expenses can be devastating, wiping out a family's entire



### Summary:

- ❏ A partnership that links your company to the experience of an acknowledged leader in long-term care insurance product development, marketing and administration gives you an outstanding opportunity to serve your client base while improving your revenue stream.
- ❏ You will benefit from a full-service, turnkey operation that will immediately make your company a solid, reputable provider of comprehensive, affordable long-term care insurance.

## the next step

This proposal has provided a summary of opportunities, benefits and services that your company can experience in a long-term care insurance partnership. Our intent is to highlight the possibilities and the potential. With a more comprehensive review of details, we can demonstrate that those possibilities and potential are real.

We look forward to joining your company in a long-term care program that answers an urgent need in your community—and provides an exciting opportunity for your business. We would be pleased to schedule a formal presentation to you and other key representatives of your organization.

That presentation will show convincingly that comprehensive, affordable long-term care insurance is the logical next step in the growth of your company's services and operating results.



## the advantages of partnership

### Overview

The proposed partnership offers a full-service, turnkey program for the long-term care insurance market. For your organization, such an arrangement assures minimum disruption of your existing operations. Depending on negotiations, we can offer various financial incentives, including but not limited to a guaranteed income stream or risk-sharing participation.

### A look at your prospective partner—MedAmerica Insurance Company:

- ▶ MedAmerica Insurance Company is licensed to sell insurance in 50 states, plus the District of Columbia and has a Best's rating of "A-" (Excellent) and is rated "A-" (Strong) by Standard & Poors.
- ▶ MedAmerica has been offering quality long-term care insurance to employer groups and individuals for more than 15 years. Recognized as an industry leader for its quality products, excellent service, and strong financial position, MedAmerica is — above all — totally committed to helping insureds and their families when long-term care services are needed.
- ▶ MedAmerica is a subsidiary of a \$4-billion health insurer, which has more than 65 years of continual service in the financing and delivery of health care services and currently serves more than 2 million people.

### The services a partnership will provide to your company:

- ▶ **Product design and implementation:** marketing analysis, competitive benchmarking, product specification, features and benefits, rates and actuarial memoranda, benefit access, covered services, state insurance department filings and regulatory compliance.
- ▶ **Administrative services:** policy issue and entry, billing and collection, medical underwriting, commission processing, policy changes and conversions, and customer service.
- ▶ **Case management and claims services:** patient advocacy, full individual case management, national capacity and full claims services.
- ▶ **Commission accounting:** statements and multi-tiered override reports; hierarchy accounting; 1099 W2 tax reporting.
- ▶ **Management reporting:** sales activity, premium reporting, financial statements, balance sheet reporting.
- ▶ **Marketing support:** training modules, telephone scripts, sales literature, lead generation, incentive programs, seminar material, mailers and videos.
- ▶ **Distribution management:** Fully directed career agency operations—specialty agents, management and support services and product and field sales training, sales support, sales incentives and management.

life savings in years or even months and causing tremendous emotional stress.

But there is a simple solution. Long-term care insurance helps people protect their life savings and safeguard their independence. It gives people the choice and control regarding who will provide the care they need and where they will receive it.

### Trends strengthening the move toward long-term care insurance:

- ▶ There are several trends strengthening the move toward long-term care insurance.

**Credibility:** many articles have been authored by reputable third parties which, together with personal attestations by public officials, give further credence to the importance of long-term care insurance.

**Notoriety:** the media is replete with articles regarding the need for long-term care.

**State and federal initiatives:** existing and pending tax incentives make long-term care insurance an even more attractive purchase.

**National associations:** many national associations have endorsed long-term care insurance for their members.

**Education:** numerous internet sites promote the need and value of long-term care insurance helping to fill one of the greatest challenges facing Americans.

**Employer interest:** employers are seeing the impact of lost productivity from employees acting as caregivers and recognizing an important role for long-term care in their benefit offerings.



### Summary:

- ▶ As America ages, the need for long-term care services will increase as will the costs. There is no government bailout in the foreseeable future. Therefore, to pay for these services, individuals will have to either exhaust their savings or rely on private long-term care insurance.
- ▶ These trends indicate significantly growing customer demand for affordable long-term care insurance and present an opportunity to be successful in this marketplace through a partnership with MedAmerica Insurance Company.

#### Sources:

- 1 "Cracks in the Nest Egg," The Wall Street Journal, October 22, 2001
- 2 "LTC's Huge Untapped Potential," National Underwriter, December 7, 1998
- 3 Chicago Tribune, June 19, 2001
- 4 The American Parkinson's Disease Association, Inc. The APDA Challenge Long-Term Care Insurance. Educational Supplement No. 11, Summer, 1998
- 5 "Should You Buy Insurance For Extended Elder Care?" The Wall Street Journal, March 31, 1999
- 6 "A Long-Term Commitment," Best's Review, October 2000
- 7 Chicago Tribune, June 19, 2001

## the difficulties involved in going it alone

### Overview

Blue Cross Blue Shield plans and other companies can proudly point to considerable experience and know-how in the development and administration of general health care insurance programs. However, that experience and know-how is usually not readily transferable to the creation of a long-term care insurance program. For a company that wants to enter this growing business area, a more efficient and effective alternative exists: Partnership.

### Critical differences between general health insurance and long-term care insurance:

▶ **Regulation:** regulations surrounding product design are unique to long-term care insurance. Because of the evolving nature of the market, those regulations are undergoing constant change. To maintain positive regulatory relationships, products, forms, rates and literature must be continually updated so they receive approvals in a timely fashion. Responding to those requirements can be a costly compliance burden.

▶ **Product Design and Development:** successful long-term care product design and development requires an understanding of a different set of competitors, medical underwriting processes, and actuarial databases. The rate-making and claims reserve practices are more akin to life insurance than to general health insurance. Most companies prefer to allocate existing resources to their core business.

▶ **Distribution Management:** to date, most sales have been made directly to individuals or to individuals through a group/association. Most acute care health insurance, on the other hand, is sold through employer-paid or sponsored offerings. Attracting distribution that specializes in sales to individuals requires a different skill than that used to recruit and manage group insurance producers. That is especially true when the average age (62) of a long-term care insurance policy purchaser is considered. Most companies that have experimented with the use of existing distribution channels have had limited success.

▶ **Marketing Services:** customers rarely deny a need for general health insurance. As a result, promotion and selling activities can focus almost exclusively on communicating benefits, rates, and provider network information. By contrast, customers for long-term care insurance often strongly deny a need—at least initially. That means sales promotion materials and the sales track itself must clearly communicate the need for long-term care insurance. Meeting that challenge creates unique marketing service requirements for the long-term care sales force.

▶ **Medical Underwriting:** medical underwriting for long-term care insurance includes not only a review of medical records and attending physician statements, but also phone health interviews and occasional face-to-face interviews. Further, the criteria for declining to issue a long-term care insurance policy differ. The underwriter also must classify an accepted application so that the proper rate is charged (standard, preferred or substandard). Finally, the long-term care insurance underwriting process must be closely managed to prevent the cost of policy acquisition from becoming uncompetitive. This special area of underwriting requires knowledge and expertise not found in a typical insurance company environment. The cost of establishing such a department is substantial and, in many cases, prohibitive.

▶ **Claims Processing:** before approving benefits payments, a long-term care insurer must determine if an individual's functional status warrants access to covered services. These determinations involve face-to-face assessments, potentially anywhere in the country. Claims processing often involves family counseling, arranging for the delivery of non-covered services, arranging patient placement in a long-term care facility and providing extra-contractual benefits needed to satisfy a policyholder's social requirements. Our highly-trained patient advocates bring a combination of experience and caring to this process that would be difficult to replicate.

### What these differences mean to general health care insurers:

- ▶ To build a successful long-term care insurance operation from the ground up, a carrier must be prepared to commit substantial resources—both human and financial. Based on the experience of one successful regional long-term care insurer, a carrier would have to achieve a \$25 million premium base to effectively support functions outlined above. To reach that level of premium volume in a short period of time, a carrier must have a national marketing scope.
- ▶ As a result of that requirement, a number of companies entered the long-term care insurance business — only to have failed and have exited the market.

### Summary:

- ▶ The requirements and cost involved in entering the long-term care insurance market are considerable. That's why many carriers have chosen either to avoid or abandon the business.
- ▶ A practical and realistic alternative exists, however: a partnership with MedAmerica Insurance Company. MedAmerica specializes in long-term care insurance and can provide full administrative and marketing support. Such an approach can give your organization a risk-free opportunity to enter the long-term care insurance business and tap into this potentially explosive growth market.
- ▶ The partnership is built on a solid foundation, consisting of the expertise and resources of leaders in long-term care insurance.

