Comparing the Relative Value of LTC Insurance Solutions:

Moderator: Steve Cain (LTCI Partners)

Panelists:
- Cathy Ho (LIMRA)
- Carl Friedrich (Milliman)
- Michael Ashwill (Borden Hamman)
Session 20: Comparing the Relative Value of LTCI Solutions
COMBINATION PRODUCTS

Comparing the relative value of LTC Insurance Solutions:

Industry Trends

Cathy Ho, LIMRA
Life Combination Sales Trend

Total New Premium
($billions)

$3.0

$2.5

$2.0

$1.5

$1.0

$0.5

$-

2010  2011  2012  2013  2014

New Policies
(1,000s)

120

100

80

60

40

20

0

Premium shown is Total Premium (Recurring + Single Premium).

Source: LIMRA’s Individual Life-Combination Sales Survey

Session 20: Comparing the Relative Value of LTCI Solutions
Market Share by Product

Source: LIMRA's Individual Life-Combination Sales Survey

Session 20: Comparing the Relative Value of LTCI Solutions
LTC Solutions Market

New Lives in 2014
- Annuity 2%
- Life 43%
- LTCI 55%

New Dollars in 2014
- Annuity 10%
- Life 76%
- LTCI 14%

Source: LIMRA’s Individual Life-Combination Sales Survey
Evolution of Combination Products, and Current Designs

Presented by Carl Friedrich, FSA, MAAA
Consulting Actuary & Principal

16th Annual Intercompany Long Term Care Insurance Conference
## Life or Annuity-LTC Combination Products

<table>
<thead>
<tr>
<th>Product</th>
<th>Characteristics</th>
<th>Base plan</th>
<th>Premium/Charge structure</th>
<th>Governing laws and regs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hybrid Life/LTC</td>
<td>Acceleration of death benefit rider (ABR) and Extension of benefit rider (EBR) beyond death benefits</td>
<td>UL, WL, IUL, VL</td>
<td>Usually Single premium, more limited pay &amp; annual pay emerging (rider charges usually monthly, but some are one-time lump sum)</td>
<td>Tax: 101(g) or 7702B for ABR, 7702B for EBR Stat: LTC Model Reg 641 and Model Act 640</td>
</tr>
<tr>
<td>Hybrid Annuity/LTC</td>
<td>Acceleration of cash value benefit (AB) and Extension of benefits (EOB) beyond cash values</td>
<td>Fixed, indexed, or variable deferred annuity</td>
<td>Virtually all Single premium, few limited pay structures; charges usually x bps on AV per month, but some variations</td>
<td>Tax: 7702B for LTC Stat: LTC Model Reg 641</td>
</tr>
<tr>
<td>Linked Benefit Life with LTC ABR</td>
<td>Acceleration of death benefit rider (ABR)</td>
<td>UL, WL, IUL, VL</td>
<td>Usually level pay or multi-pay</td>
<td>Tax: 101(g) or 7702B for ABR Stat: LTC Model Reg 641</td>
</tr>
</tbody>
</table>
## Life with Chronic Illness Riders

<table>
<thead>
<tr>
<th>Product</th>
<th>Characteristics</th>
<th>Premium and Charge structure</th>
<th>Governing laws and regs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chronic illness (CI) rider to Life, with upfront charges</td>
<td>Acceleration of death benefit rider (ABR) for CI (often 2 of 6 ADL’s or cognitive impairment, with permanence)</td>
<td>Usually limited pay or annual pay (rider charges usually monthly)</td>
<td>Tax: 101(g) and Model Reg 620 (requires lump sum options; no restrictions on use of proceeds)</td>
</tr>
<tr>
<td>Chronic illness rider to Life, no upfront charges but liens used for benefits, lien interest charges</td>
<td>As above</td>
<td>Usually limited pay or annual pay</td>
<td>Tax: 101(g) and Model Reg 620</td>
</tr>
<tr>
<td>Chronic illness rider to Life, no upfront charges but discounted DB paid for CI</td>
<td>As above</td>
<td>Usually limited pay or annual pay</td>
<td>Tax: 101(g) and Model Reg 620</td>
</tr>
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</table>
Diverse Market Place – Offering Consumer Options

Lincoln MoneyGuard®
Awareness, huge dedicated wholesaling force

Pacific Life PremierCare®
Full ROP, Inflation Story

Genworth
Full Underwriting, Multiple Risk Classes

OneAmerica
Portfolio of Linked Solutions [Life (single & joint life) & Annuity]. Lifetime LTC

Nationwide
Indemnity

MassMutual
Dividends
Sales of policies with chronic illness riders reported for 21 plans in 2013 were $1,197M.

Attached to a variety of base plans, with the most common being UL (17), WL (10), IUL (8) and VL (6), and even 2 on term.

Triggers usually include LHCP cert, 2 of 6 ADLs or cognitive impairment, but 7 require permanent nursing home confinement.

14 of 23 require expectation of permanence.

<table>
<thead>
<tr>
<th>Chronic Illness Approach</th>
<th># of Companies Using Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lien approach, all charging interest</td>
<td>8</td>
</tr>
<tr>
<td>Dollar-for-dollar DB Reduction</td>
<td>6</td>
</tr>
<tr>
<td>(use upfront charges)</td>
<td></td>
</tr>
<tr>
<td>Discounted DB (no upfront charge)</td>
<td>9</td>
</tr>
<tr>
<td>(2 discount based on underwriting at time of claim, the rest based on age at claim or age and duration since claim)</td>
<td></td>
</tr>
</tbody>
</table>
Annuity/LTC Linked Benefits

- These include both an accelerated LTC benefit and additional benefits independent of the base plan (“Extension of Benefits” or EBR provisions)
- All LTC regulations apply to EBR provisions/riders
- Requirements for offer of 5% compound inflation benefit and LTC nonforfeiture benefit apply
- Charge structures include either level bp charges or per thousand of NAR
## Attributes of Different Combo Structures

<table>
<thead>
<tr>
<th></th>
<th>What’s Good</th>
<th>What’s Not So Good</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Life/LTC ABR</strong></td>
<td>Provides LTC benefits, tax free</td>
<td>Caps LTC benefits at life face</td>
</tr>
<tr>
<td></td>
<td>Self-insurance, alignment of interests</td>
<td>Depletes life insurance when LTC is needed</td>
</tr>
<tr>
<td></td>
<td>Some pricing synergies</td>
<td>Subject to LTC regs (agent licensing, HIPAA, etc.)</td>
</tr>
<tr>
<td></td>
<td>Income tax free death benefits</td>
<td></td>
</tr>
</tbody>
</table>
## Attributes of Different Combo Structures

<table>
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<tr>
<th>Life/Chronic Illness ABR</th>
<th>What's Good</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Self-insurance, alignment of interests</td>
<td>Can't be sold as LTC (but is it?)</td>
</tr>
<tr>
<td></td>
<td>Some pricing synergies</td>
<td>Discounted DB marketing risk and consumer dissatisfaction</td>
</tr>
<tr>
<td></td>
<td>Provides income tax free death benefits and CI benefits</td>
<td>Mismatch between LTC benefits and LTC costs</td>
</tr>
<tr>
<td></td>
<td>Disability model means simpler claim administration</td>
<td>Disability model risk, overinsurance</td>
</tr>
<tr>
<td></td>
<td>No upfront cost for discounted DB/lien approaches</td>
<td>Lump sum payouts are lumpy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Caps LTC benefits at life face</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Depletes life insurance when CI care is needed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lien approach dilutes returns to company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lien interest can deplete life coverage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Liens in excess of reserves are non-admitted assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Minor tax uncertainty re impact of CI benefits on life basis</td>
</tr>
<tr>
<td>Combo Structure</td>
<td>What's Good</td>
<td>What's Not So Good</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-------------------------------------------------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>Life/LTC Hybrid</td>
<td>Provides LTC benefits, tax free</td>
<td>Depletes life insurance when LTC acceleration is used</td>
</tr>
<tr>
<td></td>
<td>Self-insurance, alignment of interests</td>
<td>Subject to LTC regs (agent licensing, HIPAA, etc.)</td>
</tr>
<tr>
<td></td>
<td>Some pricing synergies</td>
<td>ROP risks</td>
</tr>
<tr>
<td></td>
<td>Income tax free death benefits</td>
<td>Insured forced to pay life COI's</td>
</tr>
<tr>
<td></td>
<td>Comprehensive LTC coverage</td>
<td>Minor tax uncertainty re impact of LTC benefits on life basis</td>
</tr>
<tr>
<td>Annuity Hybrid</td>
<td>Provides LTC benefits, tax free</td>
<td>Depletes AV when LTC is needed</td>
</tr>
<tr>
<td></td>
<td>Self-insurance, alignment of interests</td>
<td>Subject to LTC regs (agent licensing, HIPAA, etc.)</td>
</tr>
<tr>
<td></td>
<td>Strong pricing synergies</td>
<td>LTC cost may exceed interest earnings</td>
</tr>
<tr>
<td></td>
<td>Comprehensive LTC coverage</td>
<td>Some DB may be taxable</td>
</tr>
<tr>
<td></td>
<td>1035 exchanges allowed from annuities</td>
<td>Tax uncertainty re impact of LTC benefits on annuity basis</td>
</tr>
</tbody>
</table>
A View From the Field

Presented By: Michael Ashwill
Chief Marketing Officer
Borden Hamman
Who Buys Combo Products?

LTC Planning Spectrum

- Term Life w/ ADB Rider
- Universal Life w/ ADB Rider
- LTCi
- Linked Benefit Life Rider
- Single Premium Whole Life w/ ADB
- Annuities w/ Chronic Illness Benefits
Who Buys Combo Products?

It depends on the conversation entry point…

- Want LTC – how do they want to pay for it
- Want Life Insurance – I’ll take LTC with that
- Want Annuities – two birds, one stone
- Want Something Better Than That CD – this sounds good if I can change my mind later
Who wants LTC?

- Those who have had a personal experience
- Those who feel more vulnerable to the risk
Who Buys Combo Products?

Who wants Life Insurance?

- Term Buyers – does combining LTC make sense for them?
- Under age 46 Permanent Buyers – does combining LTC make sense for them?
- Age 46-65 Permanent Buyers – does combining LTC make sense for them?
- Age 65+ Permanent Buyers – does combining LTC make sense for them?
Who Sells Combo Products?

Traditional LTC Agents

- Answers objection to possible rate increases
- More appealing solutions to their high net worth clients
Who Sells Combo Products?

Investment Advisors

- Reposition of liquid assets
- Low interest rates and high market volatility make this an easy sale
Who Sells Combo Products?

Life Agents

- Added value
- Earlier access point to policy benefits
Financial Planners

- Insure multiple needs with a single product for lower total cost
- Answer objections of rate increases, use it or lose, liquidity
How Successful Agents Sell Combo Products

- Help clients understand LTC risk first
- Identify what clients are most concerned about (long claim, quality care, home care, don’t want to waste money on premium, etc)
- Present solutions that are affordable for the client
- Don’t present more than 1-3 options
- Keep it simple
- Focus on that aspects of the product that protect against what the client is most concerned about
What is the “best deal”? 

Female Age 65 Preferred Non-Tobacco

$5,000 monthly benefit with a $250,000 total pool

- Guaranteed UL with pre-paid 2% ADBR
- Annual Premium = $5,765
- Total Premium paid over 20 years = $115,300

Traditional LTC

- Annual Premium = $2,918
- Total Premium paid over 20 years = $58,360

What if we paid $5,765 for a GUL with a discounted accelerated benefit instead of pre-paid?

Face Amount = $319,906

<table>
<thead>
<tr>
<th>At Age</th>
<th>DB Accelerated Initial Election</th>
<th>Annual Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>75</td>
<td>$76,777</td>
<td>$58,273</td>
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<tr>
<td>80</td>
<td>$76,777</td>
<td>$62,660</td>
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<tr>
<td>85</td>
<td>$76,777</td>
<td>$66,681</td>
</tr>
<tr>
<td>90</td>
<td>$76,777</td>
<td>$70,085</td>
</tr>
</tbody>
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Session 20: Comparing the Relative Value of LTCI Solutions
What is the “best deal”?

Male Age 65 Preferred Non-Tobacco

$5,000 monthly benefit with a $250,000 total pool
- Guaranteed UL with pre-paid 2% ADBR
- Annual Premium = $6,368
- Total Premium paid over 20 years = $127,360

Traditional LTC
- Annual Premium = $1,800
- Total Premium paid over 20 years = $36,000

What if we paid $6,368 for a GUL with a discounted accelerated benefit instead of pre-paid?

Face Amount = $293,520

<table>
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<th>Annual Payment</th>
</tr>
</thead>
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<tr>
<td>80</td>
<td>$70,445</td>
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<tr>
<td>85</td>
<td>$70,445</td>
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<td>$70,445</td>
<td>$65,791</td>
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Female Age 55 Preferred Non-Tobacco

$5,000 monthly benefit with a $250,000 total pool
- Guaranteed UL with pre-paid 2% ADBR
- Annual Premium = $3,312
- Total Premium paid over 30 years = $99,360

Traditional LTC
- Annual Premium = $1,632
- Total Premium paid over 30 years = $48,960

What if we paid $3,312 for a GUL with a discounted accelerated benefit instead of pre-paid?

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<tr>
<td>75</td>
<td>$76,371</td>
<td>$57,963</td>
</tr>
<tr>
<td>80</td>
<td>$76,371</td>
<td>$62,327</td>
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<td>85</td>
<td>$76,371</td>
<td>$66,326</td>
</tr>
<tr>
<td>90</td>
<td>$76,371</td>
<td>$69,713</td>
</tr>
</tbody>
</table>

Face Amount = $318,211
What is the “best deal”?  

Male Age 55 Preferred Non-Tobacco

$5,000 monthly benefit with a $250,000 total pool

- Guaranteed UL with pre-paid 2% ADBR
- Annual Premium = $3,739
- Total Premium paid over 30 years = $112,170

Traditional LTC

- Annual Premium = $1,019
- Total Premium paid over 30 years = $30,570

What if we paid $3,739 for a GUL with a discounted accelerated benefit instead of pre-paid?

Face Amount = $303,540

<table>
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<tbody>
<tr>
<td>75</td>
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<td>80</td>
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<td>$63,047</td>
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<tr>
<td>85</td>
<td>$72,850</td>
<td>$65,840</td>
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<td>90</td>
<td>$72,850</td>
<td>$68,044</td>
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What is the “best deal”?  

Female Age 45 Preferred Non-Tobacco  

$5,000 monthly benefit with a $250,000 total pool  
- Guaranteed UL with pre-paid 2% ADBR  
- Annual Premium = $2,075  
- Total Premium paid over 40 years = $83,000

**Traditional LTC**  
- Annual Premium = $1,233  
- Total Premium paid over 20 years = $49,320

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<td>75</td>
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<td>80</td>
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<td>$65,683</td>
</tr>
<tr>
<td>90</td>
<td>$75,632</td>
<td>$69,037</td>
</tr>
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What if we paid $2,075 for a GUL with a discounted accelerated benefit instead of pre-paid?  
Face Amount = $315,134
What is the “best deal”? 

Male Age 45 Preferred Non-Tobacco 

$5,000 monthly benefit with a $250,000 total pool 
- Guaranteed UL with pre-paid 2% ADBR 
- Annual Premium = $2,306 
- Total Premium paid over 40 years = $92,240 

Traditional LTC 
- Annual Premium = $783 
- Total Premium paid over 40 years = $31,320 

What if we paid $2,306 for a GUL with a discounted accelerated benefit instead of pre-paid? 
 Face Amount = $301,871 

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<td>75</td>
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<tr>
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<td>$72,449</td>
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