

# Combo Product Intro:

## Basic Product Designs and Market Sizing

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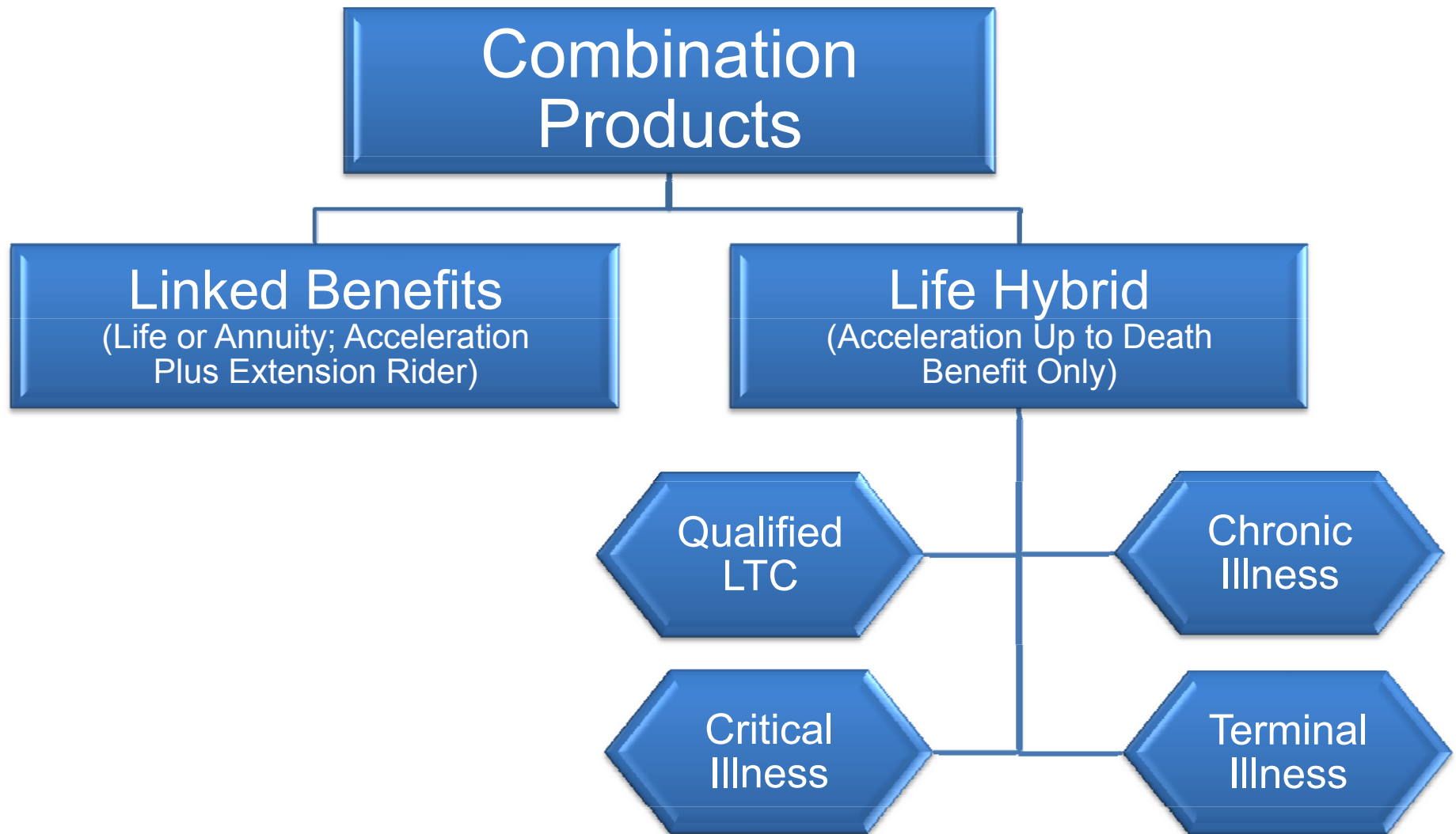
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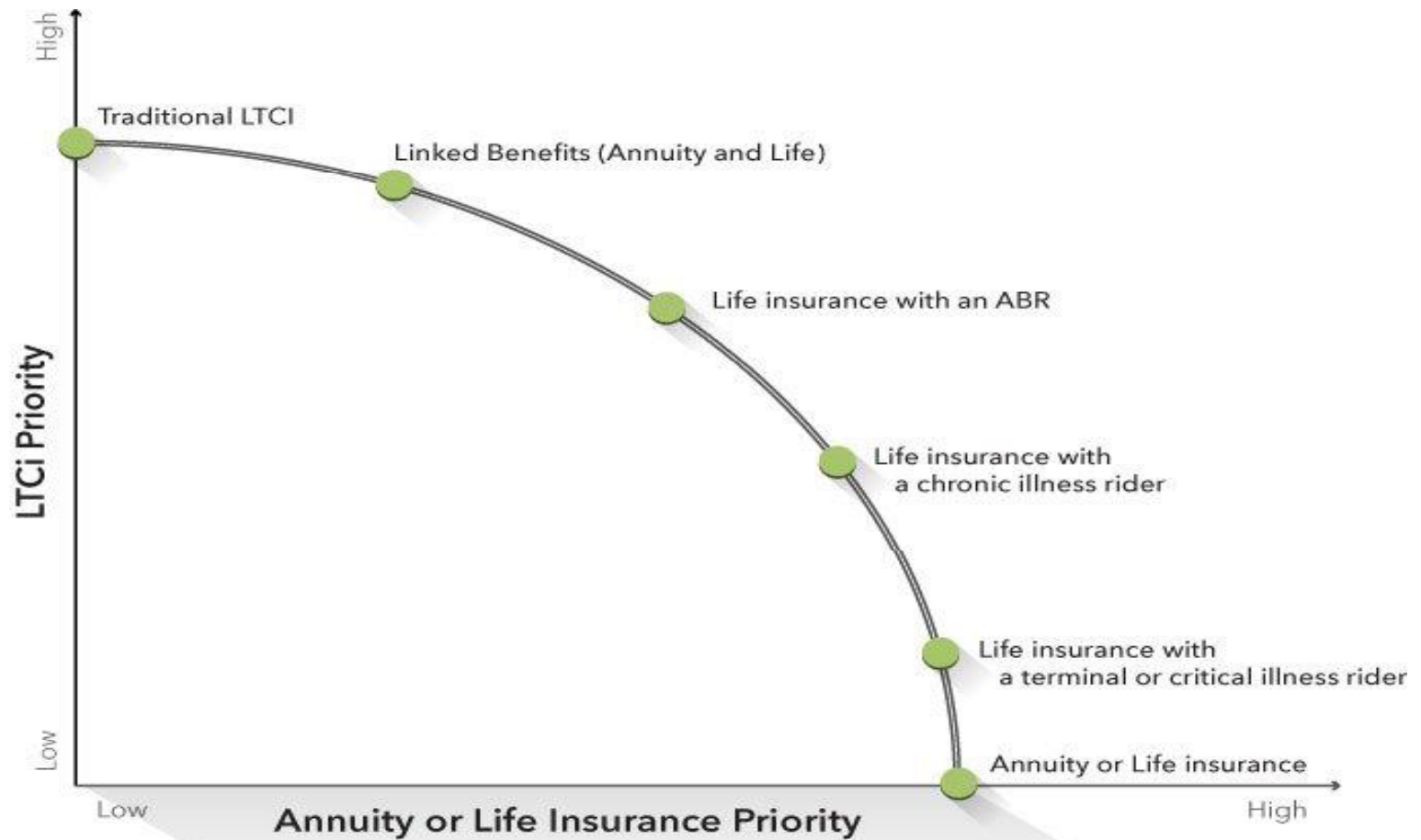
**15th Annual Intercompany Long Term Care Insurance Conference**

- Product Spectrum
- Why Linked Benefits Should Be in Your Business Plan
- Linked Benefits Product Highlights
- Long Term Care or Chronic Illness Rider
- SOA Research Report
- Closing perspectives on Annuity/LTC Combos

# Spectrum of Combination Products



# Spectrum of LTCI funding solutions



LTCI means Long Term Care Insurance. ABR means Accelerated Benefit Rider.

Source: Management Understanding of Marketplace as of January 2015.

# Why Linked Benefits Should Be in Your Business Plan

# Life Linked Benefits Products – What Are They?



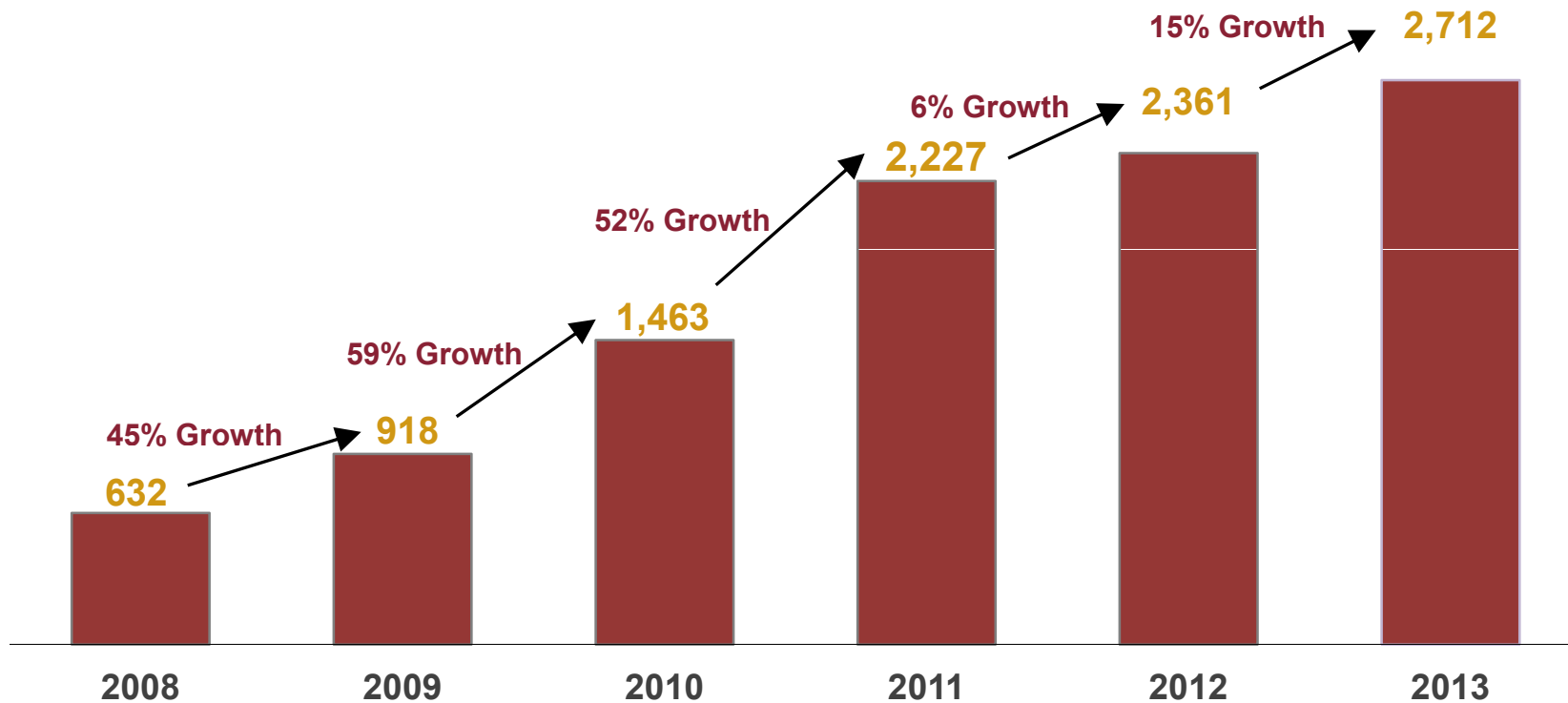
Life insurance products that link features and benefits of both **life** and **long term care (LTC)** insurance.

Covered LTC benefits and, generally, the life insurance death benefit are **income tax-free**.

# Life Combination Product: Market Growth

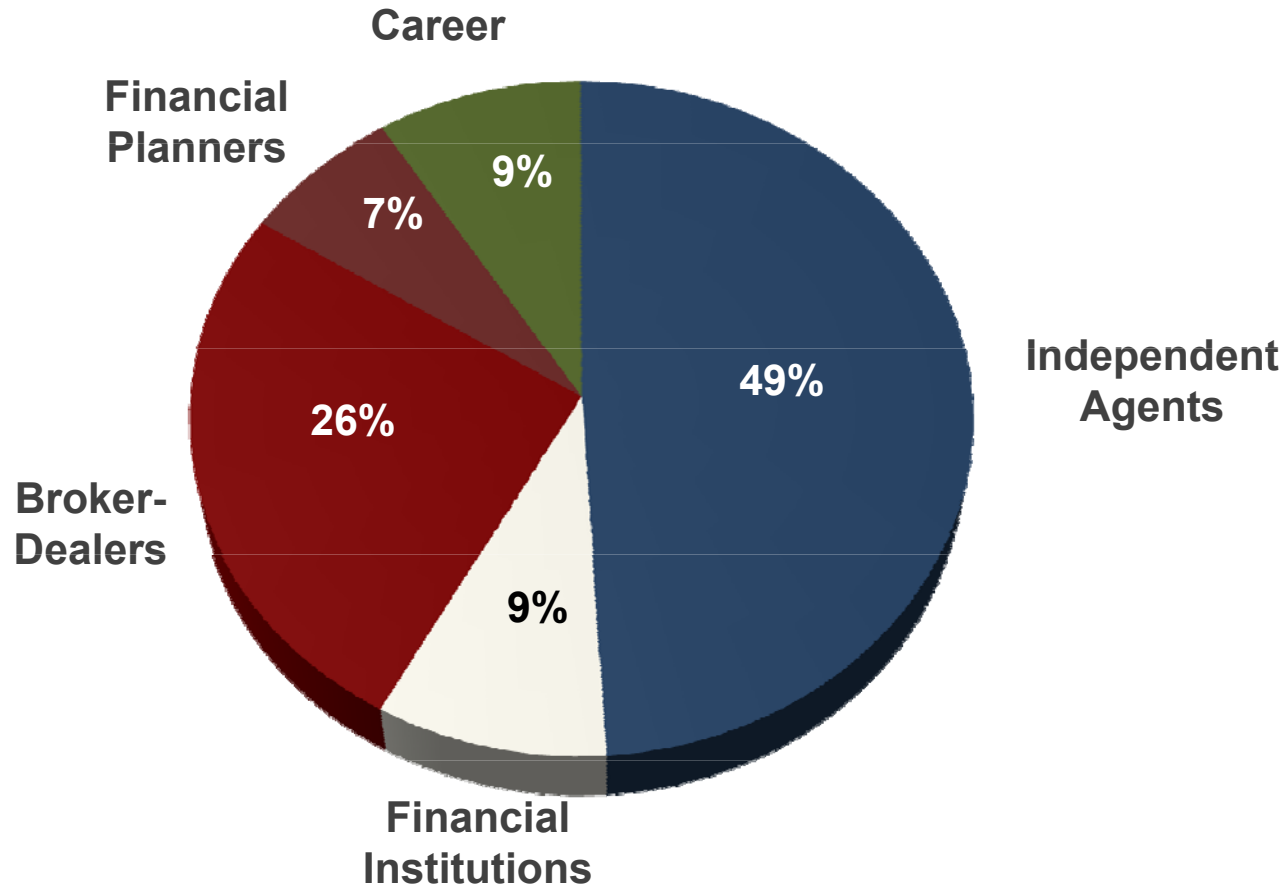


•\$ Millions, Gross Premiums



Source: LIMRA & Management Estimates as of May 2014. Sales Includes Universal Life (UL) and Whole Life Insurance Combination Products. Distribution Splits Include UL, Whole Life and Variable Life.

# Who Sells Linked Benefits Products?



Source: LIMRA & Management Estimates as of May 2014. Sales Includes Universal Life (UL) and Whole Life Insurance Linked Benefits Products. Distribution Splits Include UL, Whole Life and Variable Life.



## Consumers Fall Into 1 of 3 Categories

### Long Term Care Insurance (LTCI) Purchasers

- Recognize need for LTCI protection and willing to purchase traditional policy as a solution
- Solution = Traditional LTCI policy

### Self-Insuring

- Expect to use existing assets to fund LTC need
- Don't like idea of paying premiums and if they die w/o a LTC claim, they receive nothing
- Solution = Linked Benefits Product

### Medicaid

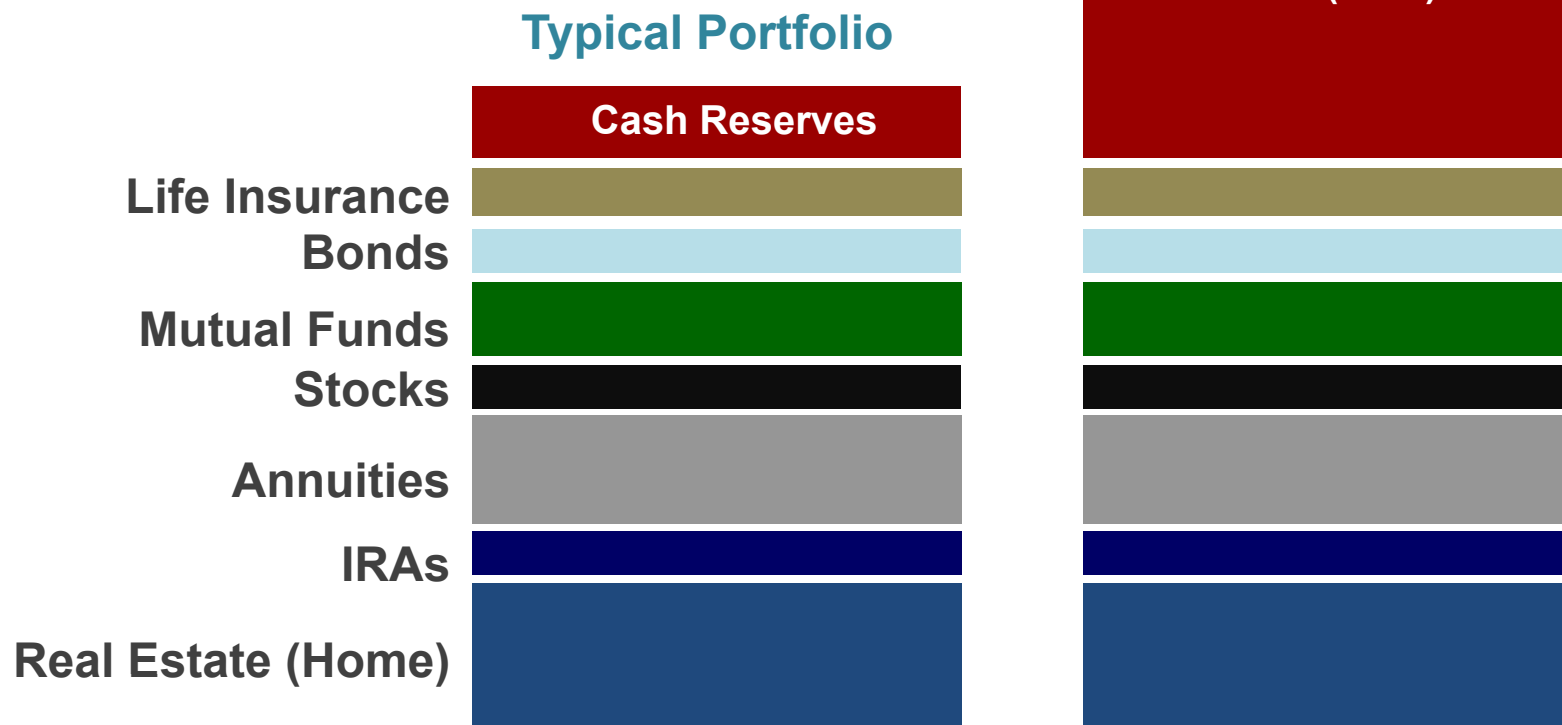
- No private insurance solution

# A More Effective Way To Self-Insure



## An Asset-Allocation Approach

## Portfolio w/ Linked Benefits



# Linked Benefits Product Highlights

## A Powerful Combination

- 1 Your Client's **Care** is Covered
- 2 Your Client's **Life** is Covered
- 3 Your Client's **Decision** is Covered\*

\*This requires the optional Return of Premium Rider.

# Significant Leverage for Your Clients



## Long Term Care Leverage Table\*

|                 | Issue Age |      |      |      |      |
|-----------------|-----------|------|------|------|------|
|                 | 50        | 55   | 60   | 65   | 70   |
| Leverage Factor |           |      |      |      |      |
| Female          | 8.8x      | 7.5x | 6.5x | 5.3x | 4.2x |
| Male            | 8.1x      | 6.9x | 6.0x | 5.0x | 4.1x |

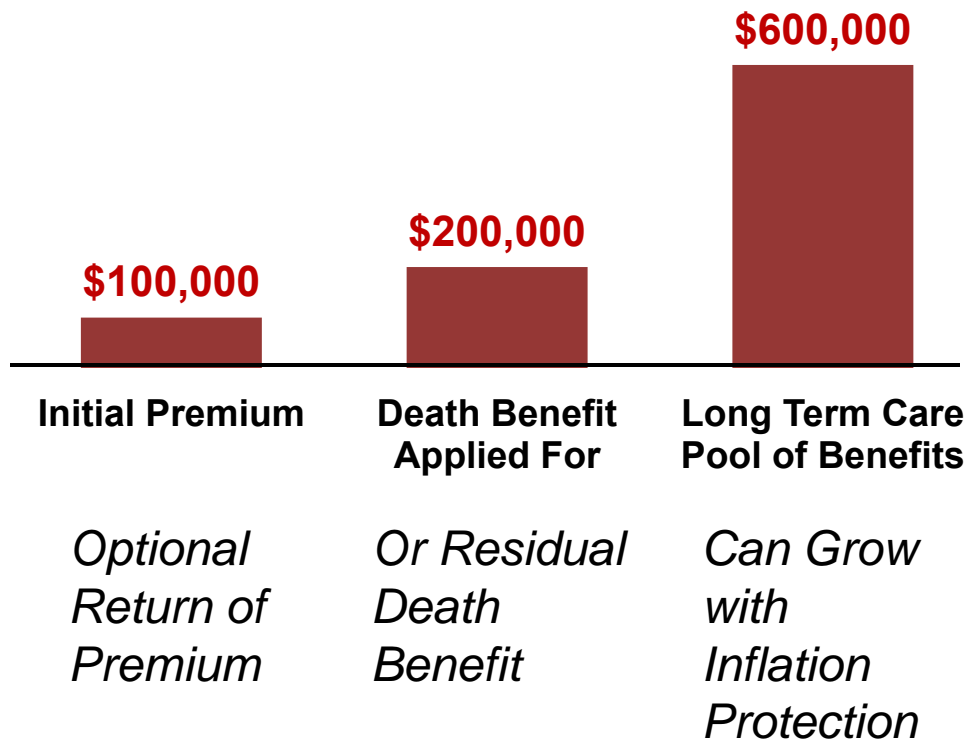
Linked Benefit products leverage your client's initial premium to provide significant LTC benefits

\* Results are calculated based on interest rate of 3.60%, preferred health, 20% Couples Discount, 2 year Accelerated Benefit Rider, 4 year Extension of Benefits Rider, no inflation benefits and lifetime return of premium after year 3.

# Linked Benefits Overview



## Typical Value Example



## Simple Steps

- 1 Determine Initial Premium**  
(Minimum Face Amount of \$50,000)
- 2 Decide On Optional Inflation Protection**  
(0% Thru 5% Compound)
- 3 Determine Length Of LTC Coverage**  
(2, 3 or 4 Year ABR, 0, 2 or 4 Year EBR)

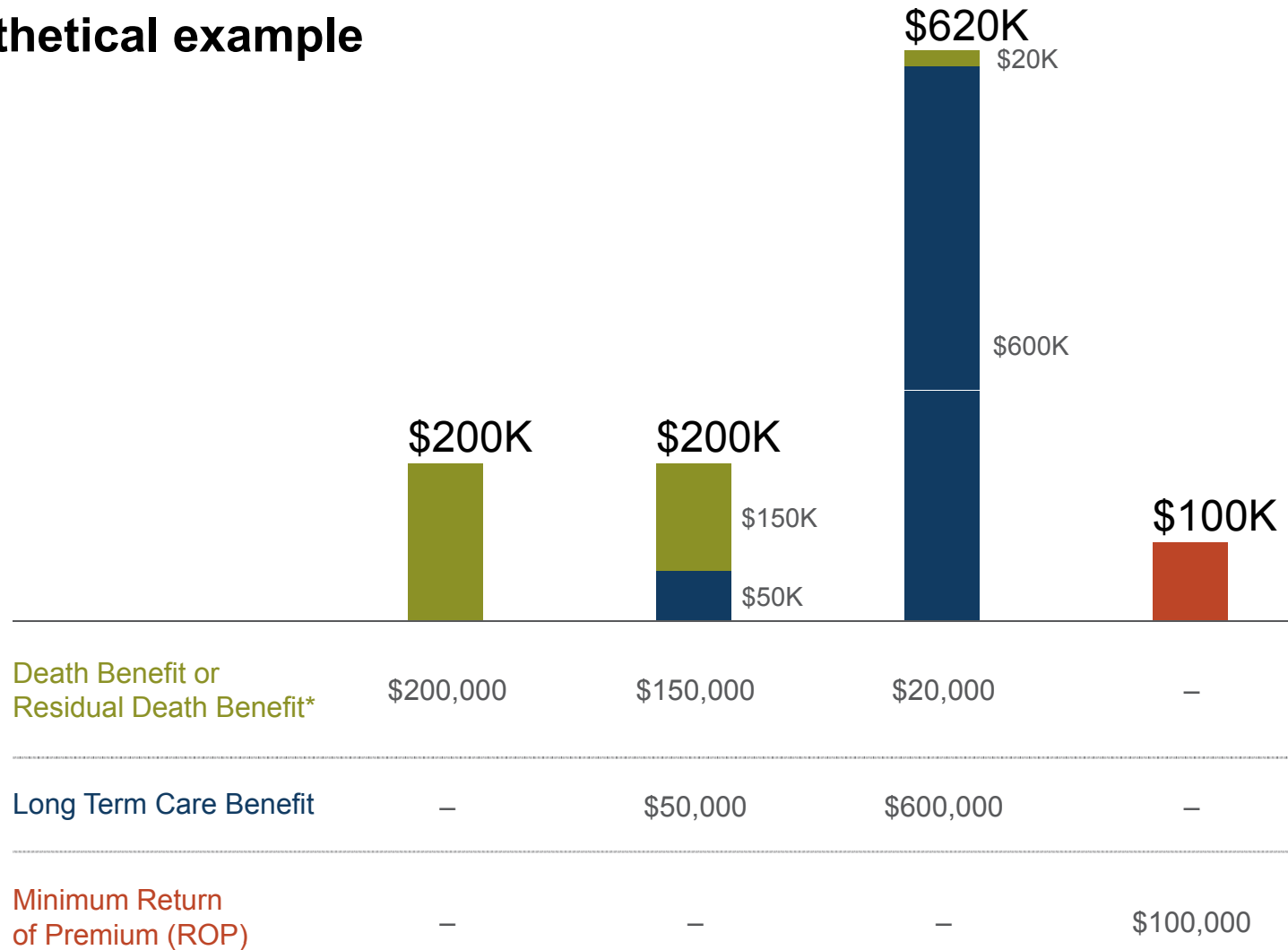
ABR means Accelerated Benefit Rider. EBR means Extension of Benefits Rider.

Note: Average case portrayed

# Linked Benefits Overview – What If?



## Hypothetical example



\*The death benefit paid will be the greater of the two. All values and benefits are shown at their original benefit levels. Minimum guarantee values may be less.

# Product Highlights



## Robust LTCI Benefits

Based on Leading LTCI product features

- 0-Day EP on Home Care
- Informal Caregivers
- Care Coordination Services
- Offer International Coverage, Caregiver Training, Supportive Equipment, Respite Care, and Bed Reservation
- Preferred Health & Couples Discounts

## Flexibility

Strong Guarantees & Underwriting Choices

- Single or Flexible Premiums
- Lifetime Return Of Premium (ROP) After Policy Year X
- Most Have Simplified Underwriting
- Some Provide More Comprehensive Underwriting
- Ability to Issue to Substandard Lives

## Protection

Protection For Customer And Their Beneficiaries

- Guaranteed Death Benefits
- Guaranteed LTC Benefits
- 5-20% Residual Death Benefit

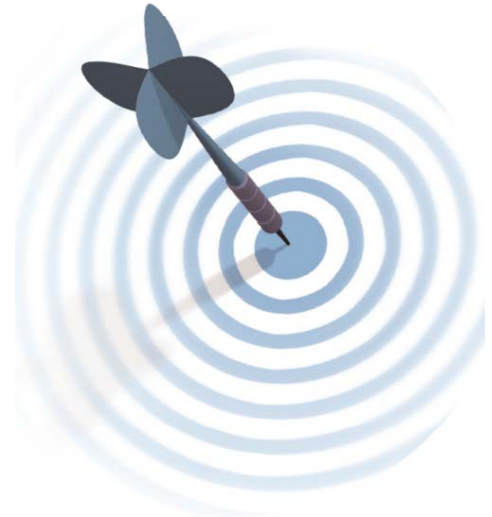


# Who is Your Target Linked Benefits Customer?



Look for clients who:

- Are between age **50** and **75**
- Want to protect assets from potential long term care (LTC) expenses **and** leave something behind for their beneficiaries
- Have available assets of **\$300K** (varies by company) or more excluding their home and qualified plan assets
- May have a **term life** insurance policy that is expiring
- Are **self-insuring** against a potential LTC event
- Are in **good health**
- **Couples**



# MAKE AN INFORMED CHOICE

## Long Term Care or Chronic Illness Rider?

# LTC Events can be Expensive



- Most health insurance plans don't cover these costs
- Coverage to help with expenses is a growing need

## 2014 National Median Annual Cost of LTC\*

|  |          |
|--|----------|
| Assisted Living Facility<br><i>One Bedroom, Single Occupancy</i> | \$42,000 |
| Home Care<br><i>Home Health Aide Services (Licensed)</i>         | \$45,188 |
| Private Nursing Home Room  | \$87,600 |

\* Genworth 2014 Cost of Care Survey conducted by CareScout® April 2014.

# Significant Differences



- Chronic Illness and LTC riders offer accelerated access to a policy's death benefit while insured is living
- However, qualification requirements and benefits may differ significantly
- Understanding the differences is essential to help clients make an informed choice
- Here's a comparison...

# Qualifications to Receive Benefits



## Accelerated Benefit Rider for Long Term Care Services

- Certified as needing substantial assistance with at least two ADLs and expected to last at least 90 days
- Diagnosed with severe cognitive impairment

## Most Chronic Illness Riders\*

- Diagnosed with the inability to perform at least two ADLs that are certified to be permanent
- Diagnosed with severe cognitive impairment
- Condition must be certified as permanent

ADLS means Activities of Daily Living

\*August 2014 Interstate Compact changes allow non-permanent chronic illness plans to be filled as of December 2014.

## Accelerated Benefit Rider for Long Term Care Services

- Accelerated access of up to 100% of policy's specified amount

## Most Chronic Illness Riders

- Typically accelerates access through a lien with accrued interest or provides a payment that is an actuarially discounted portion of the death benefit reduction (some plans accelerate on a dollar-for-dollar basis)

## Accelerated Benefit Rider for Long Term Care Services

- Broad
- Available for temporary or permanent conditions
- Covers care:
  - At home & in the community
  - In an assisted living facility
  - In a nursing home

## Most Chronic Illness Riders

- Restrictive
- Only available if condition is permanent
- Payment is not required to be used for long term care

## Accelerated Benefit Rider for Long Term Care Services

- Paid as expense reimbursement
- Up to monthly & lifetime maximums
- Reimbursement covers actual expenses

## Most Chronic Illness Riders

- Paid as monthly, semi-annually or annual lump sum
- Indemnity payments made today that are above \$330 daily or \$120,450 annually are subject to taxes unless receipts are submitted (annual limits for 2015)



# Reimbursement vs. Indemnity (Disability) Methods



## Accelerated Benefit Rider for Long Term Care Services

- Use Section 101(g) & 7702B
- Can be Reimbursement or Indemnity method

### Reimbursement Only Method

- Tax-Free Reimbursement of covered expenses incurred
- Any portion of monthly maximum amount not used is available for future benefits
- 100% of specified amount is ultimately available\*
- Pays for both temporary or permanent diagnosis

## Most Chronic Illness Riders

- Use Section 101(g) only
- Must use Indemnity method
- Lump sum payment can be used for any purpose
- Typically lump sum is either:
  - Discounted death benefit
  - Lien with interest applied
- Pays only after permanent diagnosis
- Amount above IRS limits are taxable unless receipts provided

\*If specified amount is greater than the maximum allowable benefit, then 100% of the maximum allowable benefit is ultimately available.

## Accelerated Benefit Rider for Long Term Care Services

- Income tax-free LTC payments
- Qualifies under IRC Section 7702B

## Most Chronic Illness Riders

- Distributions may be income tax-free under IRC Section 101(g)
- Payments above indemnity limit may be taxable

Policyowners should consult their own tax professional regarding the tax treatment of distributions from these riders.

“In reality, most chronic illness riders that are based on one of the first four qualifying events defined in model reg 620 have more restrictive terms than the standard LTCl trigger definitions, so the prohibition of marketing those plans as LTCl is appropriate.”

Milliman Research Report  
“Chronic Illness Accelerated Benefit Riders”  
April, 2012

## Accelerated Benefit Rider for Long Term Care Services

- Additional Cost of Insurance based on age & Underwriting classification
- Cost known at policy issue

## Most Chronic Illness Riders

- Included at no extra charge
- Administrative fee, lien interest, and/or actuarially discounted death benefit cost triggered if option is activated
- Cost isn't known until used

## Accelerated Benefit Rider for Long Term Care Services

- Remaining death benefit not accelerated through this rider will be payable as a death benefit

## Most Chronic Illness Riders

- Remaining death benefit not accelerated through this rider will be payable as a death benefit

# Important Information



Refer to the policy for definitions and more details regarding coverage and its features. This presentation provides a summary of coverage. Policy terms and provisions will prevail.

All guarantees are based on the claims-paying ability of the issuing insurance company.

Covered long term care expenses may be paid for a longer or shorter period than the Benefit Period. Expenses may be paid for a longer period if the actual expenses paid are less than the Monthly Maximum. Expenses may be paid for a shorter period because some services, such as supportive equipment, caregiver training and bed reservation do not count toward the Monthly Maximum.

Gain accumulates tax-deferred until it is withdrawn. The taxable amount withdrawn from life insurance policies is subject to ordinary income tax.

A Linked Benefits policy may be treated as a Modified Endowment Contract (MEC). In that event, partial withdrawals (including loans which are treated as withdrawals) will be taxable to the extent of gain in the policy.

The taxable amount of MEC withdrawals and surrenders taken before age 59½ will be subject to an additional 10% penalty tax, unless another exception applies.

Partial withdrawals from life insurance policies that are not treated as MECs are not taxable until the amount withdrawn exceeds the policy cost basis. A 10% penalty tax does not apply.

## Important Information (continued)



Because LTC rider charges reduce cost basis (not below zero) it is possible for Return of Premium Rider (ROP) benefits to be taxable.

Benefit payments made under a linked benefits policy for covered long term care services are income tax free. Monthly charges to pay for long term care insurance are not included in the gross income of the owner, but reduce the owner's income tax basis (not below zero). No income tax deduction is available for these monthly charges.

This content was written to help you understand the ideas discussed and to support marketing of the product(s) identified in the material. Any examples are hypothetical and are used only to help you understand the ideas. They may not reflect your client(s)' particular circumstances. Your clients should carefully read their contract, policy and prospectus(es), when applicable. What we say about legal or tax matters is our understanding of current law; but we are not offering legal or tax advice. Tax laws and IRS administrative positions may change. We did not write this material for use by any taxpayer to avoid any Internal Revenue Service penalty and neither you nor your clients may use it for that purpose. Your clients should ask their independent tax and legal advisors for advice based on their particular circumstances.

# SOA Research Report... & More

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Milliman

Consulting Actuary and Principal



- SOA is sponsoring a research report (not yet published) on a wide range of living benefit riders with medically related triggers on life or annuity products, including a survey with preliminary responses from 33 companies, reflecting the following numbers by rider
  - Terminal illness - 35
  - Chronic illness - 23
  - LTC accelerated benefits - 9
  - Life linked benefits (includes extension of benefits) - 7
  - Annuity linked benefits - 5
  - Critical illness accelerated benefits - 3

# SOA Research Report – Chronic Illness Survey

- 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

| Chronic Illness Approach                             | # of Companies Using Approach  |
|--|--|
| Lien approach, all charging interest                 | 8  |
| Dollar for dollar DB Reduction (use upfront charges) | 6  |
| Discounted DB  | 9<br>(2 discount based on underwriting at time of claim, the rest based on age at claim or age and duration since claim) |

# SOA Research Report – Chronic Illness Survey



- Several state variations of benefit triggers, especially FL and CT
- Five say they do not pay for unbilled services provided by family members
- 12 of 21 allow benefits to exceed HIPAA limits
- 17 offer single lump sum, 20 offer periodic payouts (eight annual, 14 monthly, and others)

- 9 reinsurance deals pay at time of rider claims
  - Three pay on acceleration only on newer business
  - Two pay on acceleration only if 100% of DB is accelerated
- Required inclusion of terminal illness benefit in many states (and per the Interstate Compact)
  - Very low recognition by direct writers of reduced utilization of chronic illness benefits (and lower mortality)
- 14 of 23 filed through the IIPRC
- IIPRC has removed the permanence requirement from their reg (but still allows)
  - But few carriers indicate they expect to modify their triggers



- More reinsurers moving to pay benefits at time of rider claim, but various concerns were expressed
- Prior practices included paying their share at time of death based on NAR frozen at time of rider claim, or based on floating NAR between rider claim and death, or not paying at all
  - Can create some disconnects between direct claim amounts and reinsurance amounts paid, but reinsurance amounts should be aligned with charges
- Some pay on surrender after a rider claim
  - “At lapse you have to figure out what to pay, e.g., what if the CV is greater than the accelerated benefit?”



- When the base policy is reinsured, but not the accelerated benefits, the reinsurer could collect premium on the life coverage with no payouts
- “If the reinsurer pays at death only, there are questions about the correct charge for the mortality risk between rider claim and death”
- Some reinsurers want to include examples in the treaties, but some direct writers don't want to include them



- Many inforce treaties do not clearly address the details of the reinsurance premium and payout calculations
- Some reinsurers' underwriters review direct writers' standards to see if there is any need to adjust mortality for anti-selection
- Reinsurers typically rely on the discounting done by the direct writer, but check the calculations before entering a treaty
  - One problem is the discounted value is based on the PV future death benefits - PV direct writer's premiums (not reinsurer's premium)
  - Some reinsurers add an extra charge to their quotes in these cases to account for the disconnect



- The IIPRC requires that terminal illness must be included with the chronic illness rider, and this has implications with the discounted death benefit approach
  - Some reinsurers have expressed concerns about pricing implications
- Biggest concern is the discounted death benefit method
  - Market conduct considerations related to low percentage payouts; more of a concern on the direct side, since reinsurers are a little more protected
  - In the past, very few people have taken a discounted death benefit offer, since the offers have not been viewed as attractive
  - Some reinsurers question whether chronic illness discounted death benefits are ultimately viable without underwriting at the time of claim





- Elimination of the permanence requirement by the IIPRC will cause some reinsurers to be less comfortable with the chronic illness risk
- Some concern about certain riders being issued without what reinsurers consider to be best practice risk controls
- There is a big distinction between riders that charge a premium versus those that don't
  - Companies charging a premium are now viewing this as a way to grow premium, and a way to provide value to the client



- Significant interest among direct writers in providing living benefits on life products
- Several product designs are available to provide those benefits
- Insurers need to carefully consider marketing and pricing issues for certain designs, notably discounted death benefit approaches
- Claims experience to-date in terms of incidence rates has been favorable, but data is limited
- Reinsurers are becoming more active in fully participating in these risks

- Basic designs
  - Pot of money (2) – LTC lifetime benefit is a fixed multiple of initial premium
  - Tail design (2) – LTC lifetime benefit is a fixed multiple of AV at time of claim, claims paid first from AV
  - Coinsurance (0) – As tail, but monthly benefits come partly from AV and partly from insurance until AV used up
- Target markets are those seeking insurance and tax leverage on funds to cover LTC needs

# SOA Research - Annuity/LTC Combo Survey



| Base plan chassis | Number of plans |
|-------------------|-----------------|
| BVA               | 3               |
| MVA               | 2               |
| VA                | 1               |

| Premium for base  | Number of plans           |
|-------------------|---------------------------|
| Single Premium    | 4                         |
| Recurring Premium | 1 (very limited renewals) |

# SOA Research Report - Annuity/LTC Combos



| Benefit Structure     | Number of plans |
|-----------------------|-----------------|
| Expense Reimbursement | 3               |
| Indemnity             | 2               |

| Maturity Provision for LTC  | Number of plans |
|---|-----------------|
| Policyholder can extend maturity date by one year on a year by year basis | 2               |
| Ends at base plan maturity date   | 2               |
| LTC paid up at base plan maturity date                                    | 1               |

# SOA Research Report - Annuity/LTC Combos



| Underwriting                 | Number of plans |
|------------------------------|-----------------|
| Supplemental or expanded app | 4               |
| Prescription Drug DB screen  | 4               |
| PHI                          | 3               |
| Cognitive screen             | 3               |
| Face to face exam            | 2               |
| Medical records              | 1               |



- LTC ABR/ EBR charge structure
  - Charges based on level bp assessed against AV (2)
  - Charges based on COI assessed against NAR (1)
  - Charge against the remaining guaranteed amount (2)
  - All charge structures are currently unisex
- Only one plan is reinsured (coinsurance)

# SOA Research Report - Annuity/LTC Combos



| Charge for Inflation rider  | Number of plans |
|---|-----------------|
| Level bp against AV with annual pour-in requirement   | 1               |
| Bps charge against the initial guaranteed amount less withdrawals other than for LTC benefits | 1               |
| Single charge at issue  | 1               |



- Further Personal Perspectives

- Several other plans in the market are not included in the survey, and at least two more plans under active development
- Several more carriers expressing interest, with major concerns being low interest rates and gray areas of tax law regarding impact of LTC payments on basis in the contract
- Pricing synergies are tremendous, as 80% or more of the volatility of earnings is reduced compared to stand-alone LTC across four major risks (interest, mortality, lapse, incidence rates, and morbidity rates)
- An opportunity for insurers to lock in a revenue stream as annuity combos will rarely lapse
- Annuity/LTC combos represent the only vehicle that allows gain in an annuity contract to be paid out on a tax-free basis (as LTC benefits)

# Annuity/LTC Combos



- Outlook

- Per LIMRA, \$1.86 trillion of NQ annuity AV inforce @12/2013, and most of that will be inforce until surrender charges go to zero over the next 5 to 10 years
- Sales have been growing steadily, but lagging life combo sales
- Higher interest rate environment would avoid invasion of principal risk and allow the product to work better
- Design variations can address some of the challenges of low interest rates
- Higher interest rate environment would remove an obstacle to 1035 exchanges and allow producers to enhance their clients' annuity values via tax leverage and insurance leverage in annuity combos

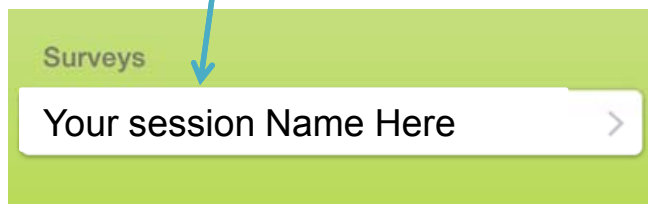
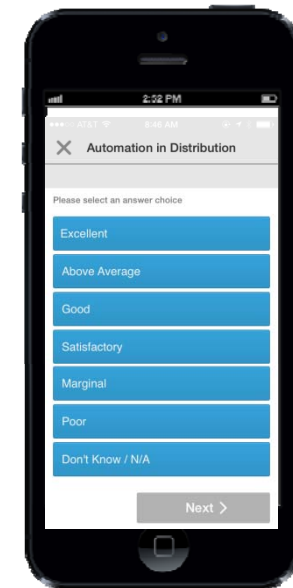
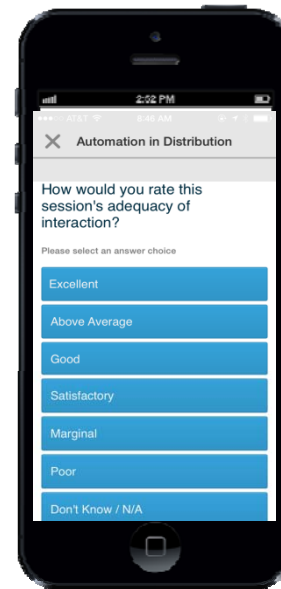
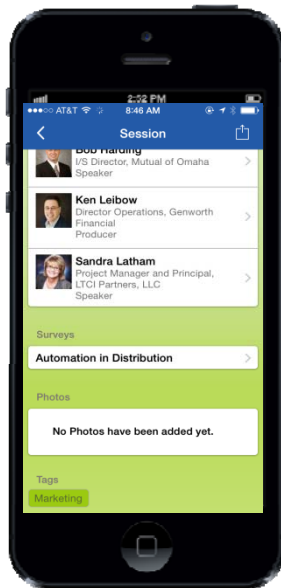
# Don't forget to fill out the survey



1<sup>st</sup> you must have download the ILTCI Mobile App  
- Go to your app store; search ILTCI. It's free.



1. Find the session
2. Scroll to the bottom
3. Tap on the session name below the survey



Tap on the answer you wish to submit

Click Next