

## ***COMBINATION PRODUCTS***

# **Comparing the Relative Value of LTC Insurance Solutions:**

**Moderator: Steve Cain (LTCI Partners)**

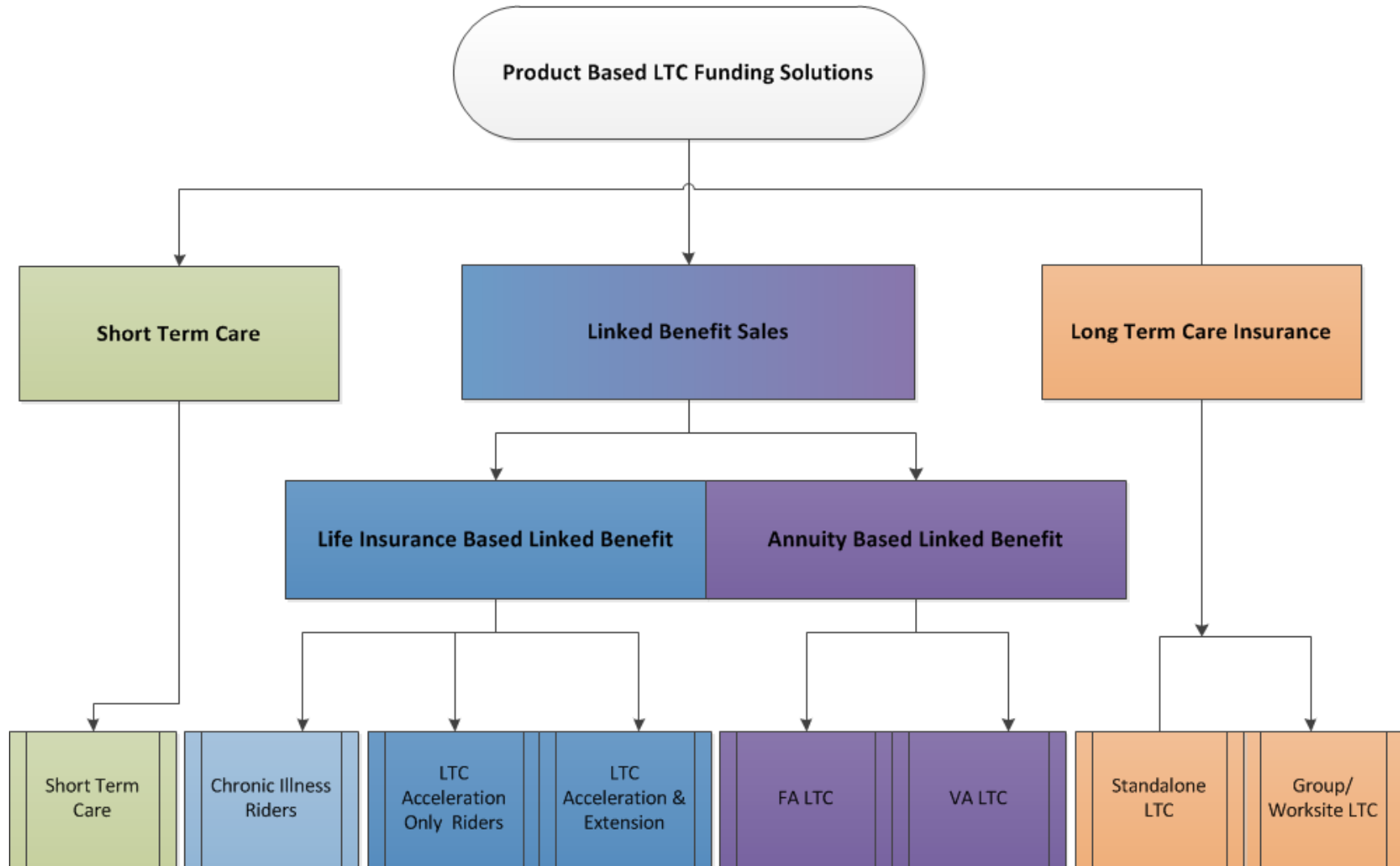
**Panelists:**

- **Cathy Ho (LIMRA)**
- **Carl Friedrich (Milliman)**
- **Michael Ashwill (Borden Hamman)**



**16th Annual Intercompany Long Term Care Insurance Conference**

# LTC Planning Solutions



# ***COMBINATION PRODUCTS***

## **Comparing the relative value of LTC Insurance Solutions:**

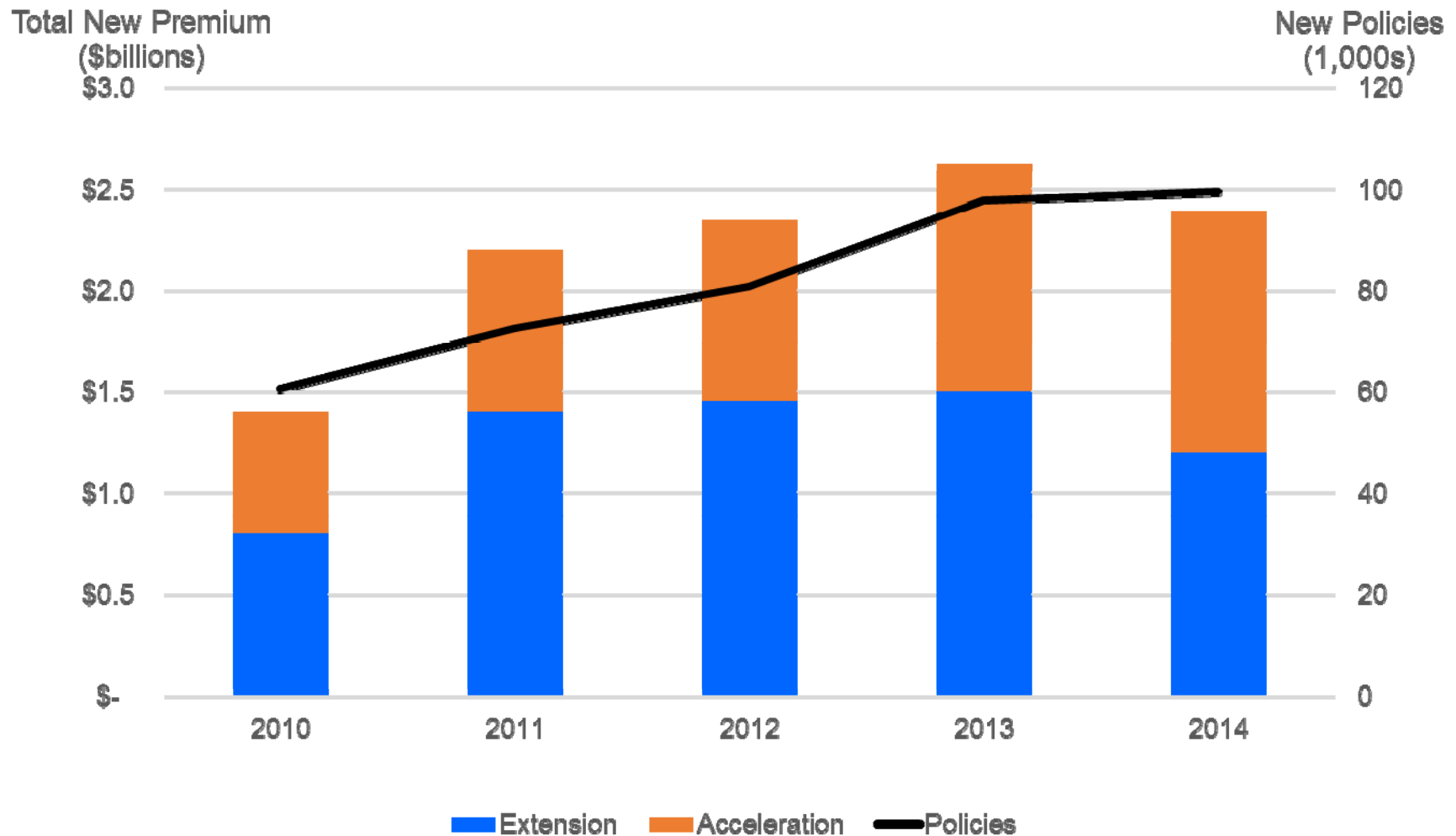
### **Industry Trends**

**Cathy Ho, LIMRA**



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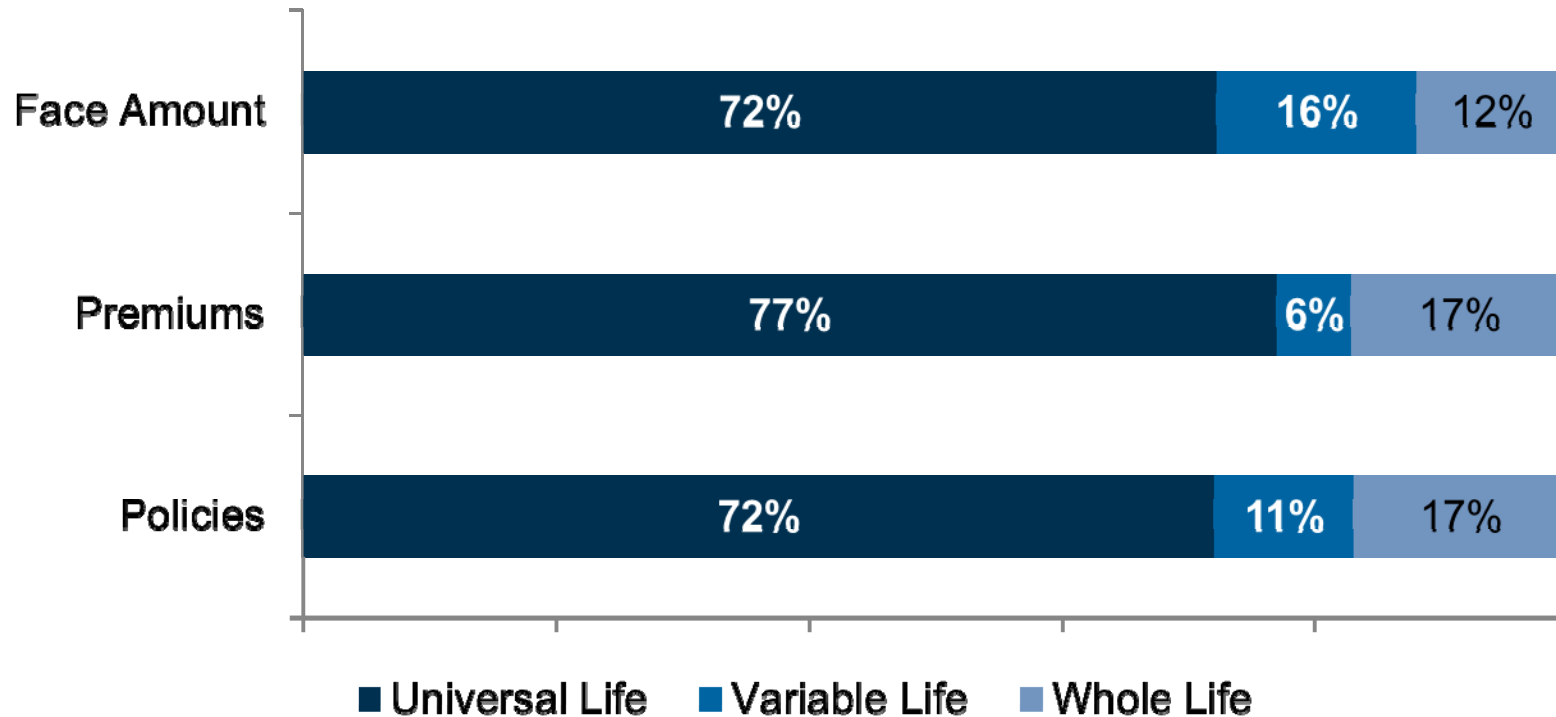
# Life Combination Sales Trend



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

Source: LIMRA's Individual Life-Combination Sales Survey

# Market Share by Product

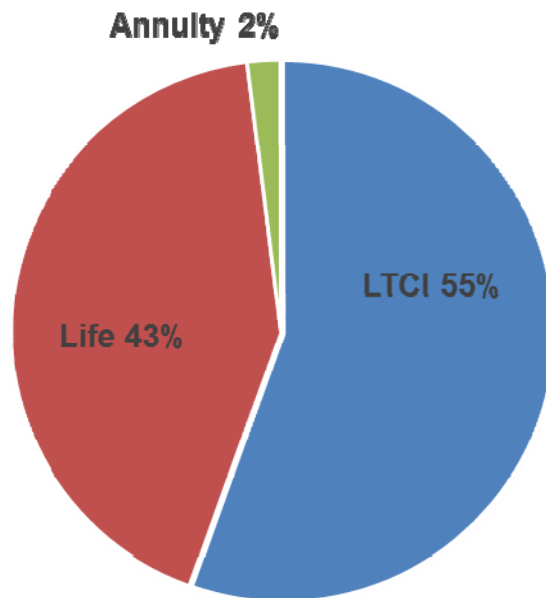


Source: LIMRA's Individual Life-Combination Sales Survey

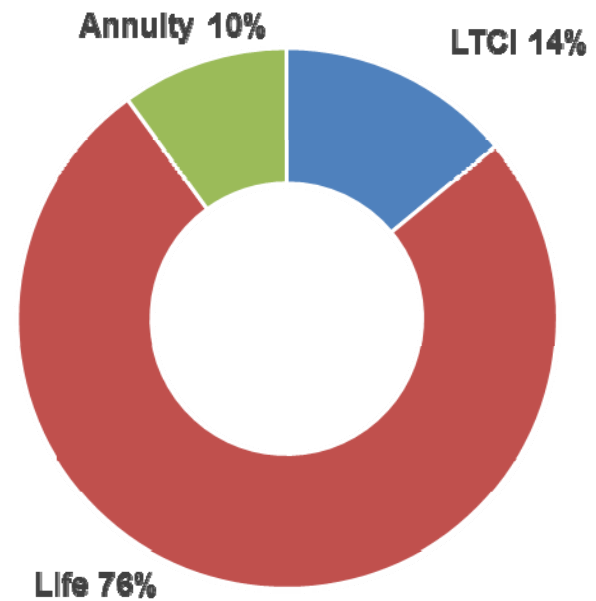
# LTC Solutions Market



New Lives in 2014



New Dollars in 2014



Source: LIMRA's Individual Life-Combination Sales Survey

# ***COMBINATION PRODUCTS***

## **Evolution of Combination Products, and Current Designs**

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



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# Life or Annuity-LTC Combination Products



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



# Life with Chronic Illness Riders



Product	Characteristics	Premium and Charge structure	Governing laws and regs
Chronic illness (CI) rider to Life, with upfront charges	Acceleration of death benefit rider (ABR) for CI (often 2 of 6 ADL's or cognitive impairment, with permanence)	Usually limited pay or annual pay (rider charges usually monthly)	Tax: 101(g) and Model Reg 620 (requires lump sum options; no restrictions on use of proceeds)
Chronic illness rider to Life, no upfront charges but liens used for benefits, lien interest charges	As above	Usually limited pay or annual pay	Tax: 101(g) and Model Reg 620
Chronic illness rider to Life, no upfront charges but discounted DB paid for CI	As above	Usually limited pay or annual pay	Tax: 101(g) and Model Reg 620

# Diverse Market Place – Offering Consumer Options



## Lincoln MoneyGuard<sup>®</sup>

*Awareness, huge dedicated wholesaling force*



## Pacific Life PremierCare<sup>®</sup>

*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*

# Direct Writer Survey - Chronic Illness



- 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

Chronic Illness Approach	# of Companies Using Approach
Lien approach, all charging interest	8
Dollar-for-dollar DB Reduction (use upfront charges)	6
Discounted DB (no upfront charge)	9 (2 discount based on underwriting at time of claim, the rest based on age at claim or age and duration since claim)

# 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



	What's Good	What's Not So Good
<b>Life/LTC ABR</b>	Provides LTC benefits, tax free	Caps LTC benefits at life face
	Self-insurance, alignment of interests	Depletes life insurance when LTC is needed
	Some pricing synergies	Subject to LTC regs (agent licensing, HIPAA, etc.)
	Income tax free death benefits	

# Attributes of Different Combo Structures



	What's Good	What's Not So Good
<b>Life/Chronic Illness ABR</b>	Self-insurance, alignment of interests	Can't be sold as LTC (but is it?)
	Some pricing synergies	Discounted DB marketing risk and consumer dissatisfaction
	Provides income tax free death benefits and CI benefits	Mismatch between LTC benefits and LTC costs
	Disability model means simpler claim administration	Disability model risk, overinsurance
	No upfront cost for discounted DB/lien approaches	Lump sum payouts are lumpy
		Caps LTC benefits at life face
		Depletes life insurance when CI care is needed
		Lien approach dilutes returns to company
		Lien interest can deplete life coverage
		Liens in excess of reserves are non-admitted assets
		Minor tax uncertainty re impact of CI benefits on life basis

# Attributes of Different Combo Structures



	What's Good	What's Not So Good
<b>Life/LTC Hybrid</b>	Provides LTC benefits, tax free	Depletes life insurance when LTC acceleration is used
	Self-insurance, alignment of interests	Subject to LTC regs (agent licensing, HIPAA, etc.)
	Some pricing synergies	ROP risks
	Income tax free death benefits	Insured forced to pay life COI's
	Comprehensive LTC coverage	Minor tax uncertainty re impact of LTC benefits on life basis
<b>Annuity Hybrid</b>	Provides LTC benefits, tax free	Depletes AV when LTC is needed
	Self-insurance, alignment of interests	Subject to LTC regs (agent licensing, HIPAA, etc.)
	Strong pricing synergies	LTC cost may exceed interest earnings
	Comprehensive LTC coverage	Some DB may be taxable
	1035 exchanges allowed from annuities	Tax uncertainty re impact of LTC benefits on annuity basis

# **COMBINATION PRODUCTS**

## **A View From the Field**

*Presented By: Michael Ashwill  
Chief Marketing Officer  
Borden Hamman*



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# Who Buys Combo Products?



## LTC Planning Spectrum

Term Life w/ ADB Rider  
Universal Life w/ ADB Rider  
LTCi  
Linked Benefit Life  
Single Premium Whole Life w/ ADB Rider  
Annuities w/ Chronic Illness Benefits

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# 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 Buys Combo Products?



## 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

# Who Sells Combo Products?



## Financial Planners

- Insure multiple needs with a single product for lower total cost
- Answer objections of rate increases, use it or lose, liquidity



# Who Sells Combo Products?



## 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



	At Age	DB Accelerated Initial Election	Annual Payment
<div style="border: 1px solid orange; padding: 5px;"> <p>What if we paid \$5,765 for a GUL with a discounted accelerated benefit instead of pre-paid?</p> <p>Face Amount = \$319,906</p> </div>	75	\$76,777	\$58,273
	80	\$76,777	\$62,660
	85	\$76,777	\$66,681
	90	\$76,777	\$70,085

# 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

At Age	DB Accelerated Initial Election	Annual Payment
75	\$70,445	\$57,622
80	\$70,445	\$60,959
85	\$70,445	\$63,660
90	\$70,445	\$65,791

# What is the “best deal” ?



## 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?

Face Amount = \$318,211

At Age	DB Accelerated Initial Election	Annual Payment
75	\$76,371	\$57,963
80	\$76,371	\$62,327
85	\$76,371	\$66,326
90	\$76,371	\$69,713

# 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

At Age	DB Accelerated Initial Election	Annual Payment
75	\$72,850	\$59,596
80	\$72,850	\$63,047
85	\$72,850	\$65,840
90	\$72,850	\$68,044

# 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



What if we paid \$2,075 for a GUL with a discounted accelerated benefit instead of pre-paid?

Face Amount = \$315,134

At Age	DB Accelerated Initial Election	Annual Payment
75	\$75,632	\$57,400
80	\$75,632	\$61,722
85	\$75,632	\$65,683
90	\$75,632	\$69,037

# 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



At Age	DB Accelerated Initial Election	Annual Payment
75	\$72,449	\$59,267
80	\$72,449	\$62,699
85	\$72,449	\$65,477
90	\$72,449	\$67,668

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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