



SOCIETY OF ACTUARIES

**SOA 09 Annual Meeting & Exhibit  
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**Session 19 PD, LTCI Combination Products**

**Moderator:**

Vincent L. Bodnar, ASA, MAAA

**Presenters:**

Vincent L. Bodnar, ASA, MAAA

Ronald Hagelman

# LTC Combination Products

SOA Annual Meeting Session 19

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**Vincent Bodnar**

DaVinci Consulting Group LLC  
Vince.Bodnar@DavinciActuaries.com



**Ronald Hagelman**

Republic Marketing Group, Inc.  
Ron@rmgtci.com



# Combination Products Overview

**Vincent Bodnar**

DaVinci Consulting Group LLC  
Vince.Bodnar@DavinciActuaries.com

## **Discussion Overview**

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- **LTC background**
- **Traditional LTCI history / problems**
- **Combo product overview**
- **Pension Protection Act**
- **Recent design trend**
- **Combo product appeal**

## **What is Long-Term Care?**

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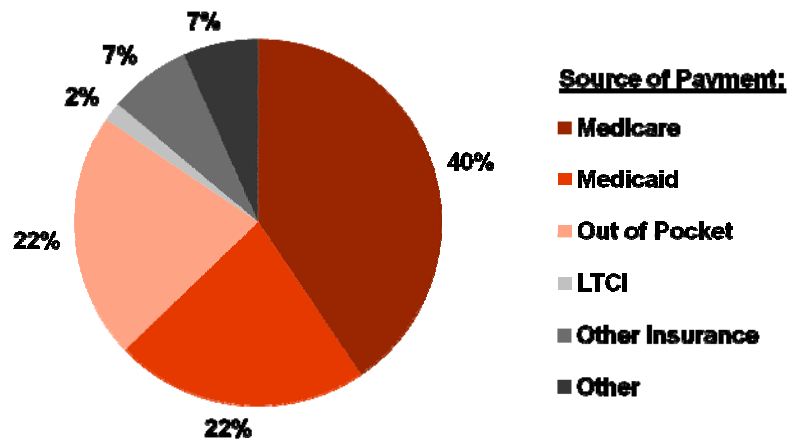
- **Services and care provided to people with a chronic illness or disability**
- **Commonly assists people with activities of daily living (e.g. dressing, bathing, eating, transferring and toileting)**
- **Provided at home, in the community, in assisted living or in nursing homes**
- **Provided to people of all ages**

## Average Costs

- 2008 MetLife Survey Results:
- Nursing Homes: \$212/day or \$78,000/yr
- Assisted Living Facilities: \$3,031/mo or \$36,000/yr
- Home Health Care: \$20/hr or \$25,000/yr

## Who Pays for Care?

2006 LTC Expenditures Totaled \$180 Billion



## **Traditional LTCI Design**

- **Similar to disability income plans:**
- **Benefit trigger is disability threshold**
  - 2+ ADLs or cognitive impairment
  - Common to require LTC services received
- **Fixed or maximum daily benefit**
- **Benefit period, elimination period**
- **Eligibility language, underwriting and claims adjudication have evolved tremendously**

## **Traditional LTCI Pricing**

- **Issue age rated / guaranteed renewable**
- **Very steep morbidity curve – similar to mortality**
- **Very cash flow positive early on, changing to very cash flow negative in later years**
- **Large policy reserves and RBC**
- **Sensitive to interest and lapse rates**

## **Traditional LTCI Complexity**

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- **Requires specialized talent in all areas**
- **Administration**
- **Technology platform**
- **Product management**
- **Distribution system!**
  - Access to / creation of LTCI specialists
  - Of 150+ carriers that entered, top 10 always had ~80% market share

## **The Complex LTCI Sale**

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- **Traditional LTCI sale is multi-step:**
- **Usually takes several hours**
- **Educate customer on need for coverage**
- **Explain product and choose options**
- **Very expensive, especially older ages**
- **LTCI specialists account for most sales**

## **Traditional LTCI Sales**

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- **Steady decrease in sales during 2000's**
- **Minor increases in sales early in decade due to federal employee program**
- **Contrary to increasing size of target market**
  - **Baby Boomers entered target age market of 55-69**

## **Drivers of LTCI Sales Decrease**

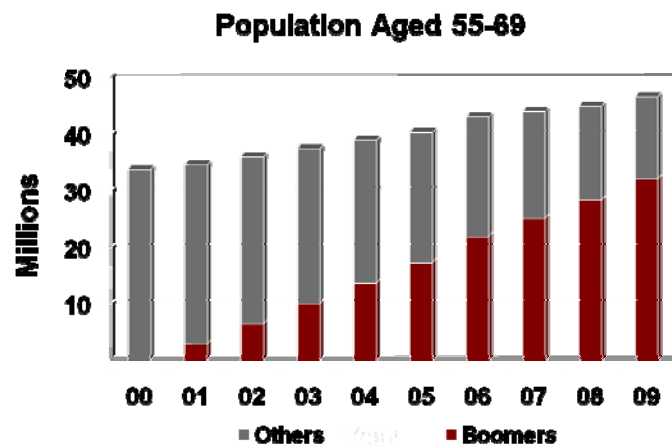
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- **Rate increases on older business**
  - **Missed pricing assumptions**
  - **Plan design flaws**
  - **Underwriting and claim process flaws**
- **Increased regulation**
  - **Resulted from rate increases**
  - **Conservative pricing mandated**
- **Drove new business premium higher**

## Drivers of LTCI Sales Decrease

- Higher new business premiums led to:
- Decreased production
  - Shrinking specialist distribution
- Carrier exits
  - Decreased production
  - Fear of risk
- Not to be discounted:
- Attitudes of changing target market

## Changing Target Market



## **Baby Boomer Attitudes**

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- **Less risk averse than parents**
- **Wealth transfer is not the primary goal**
- **Less patience - need simpler sales**
- **Want a product they can “cash out” from**
- **Old product and distribution don't work**

## **LTC Combos Offer Hope**

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- **Many traditional LTCI barriers don't exist**
- **2006 Pension Protection Act clarified taxation**
- **Seeing new entrants instead of exits**
- **Potential to overtake traditional LTCI in a short amount of time**

## **What Are LTC Combos?**

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- **Combine elements of non-LTC and LTC**
- **LTC is typically viewed as the “add-on”**
- **Not a new concept – dates to early 90s**
- **Had taken a back seat – but changing**

## **Types of Combo Products**

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- **Life Insurance Benefit Acceleration**
- **Deferred Annuity / LTCI Hybrid**
- **Immediate Annuity / LTCI Hybrid**

## **Life Benefit Acceleration**

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- **Can be attached to any type of permanent life product**
- **All or a portion of face amount available for LTC benefits**
- **A small percentage (2%-4%) of face available per month until face exhausted**
- **Fixed or maximum monthly basis**

## **Life Benefit Acceleration**

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- **Must meet eligibility requirements**
  - **Chronic Illness: Unable to perform 2 ADLs or cognitive impairment**
  - **Common to require that QLTC services are being received**
- **Additional premium or account charge**

## **Life Benefit Acceleration**

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- **Extension of Benefit variation:**
- **More than the policy face is available for LTC**
- **Alternatively, a residual death benefit is provided if entire face is accelerated**
- **Has obvious additional risk**

## **Deferred Annuity Combos**

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- **Account value (e.g., \$50k) available for LTC benefits**
  - Reduced or no surrender charge
- **Additional LTC benefit (e.g., \$100k) available after account value is exhausted**

## **Deferred Annuity Combos**

- **Payment structure similar to life acceleration:**
  - Small percentage available monthly until maximum benefit is exhausted
  - Eligibility triggers similar as well
- **Additional premium or account charge**

## **Immediate Annuity Combos**

- **Base monthly annuity benefit (e.g., \$2,000) starts immediately for life**
- **Increases to a higher benefit (e.g., \$4,000) while LTC eligibility is met**
- **Additional single premium charged at issue**

## **Pension Protection Act**

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- **Becomes effective January 1, 2010**
- **Clarifies taxation of premiums and benefits of “Qualified LTC” coverage**
  - QLTC defined in existing code (7702B)
  - When provided on life & annuity policies
  - Regardless of effect on policy values
- **Basically:**
  - QLTC component of policy / rider is considered to be a separate contract

## **Pension Protection Act**

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- **Premium / charges for QLTC coverage:**
- **Not considered to be an investment in the contract**
- **Not considered to be taxable withdrawals from account balance**
  - Previously unclear

## **Pension Protection Act**

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- **Premium / charges for QLTC coverage:**
- **Not included in premiums that are compared to guideline premium limitations**
  - Previously only cash value charges were added to the guideline premium limitations
- **Not counted as medical expenses**
  - Previously unclear

## **Pension Protection Act**

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- **QLTC benefits paid to policyholder:**
  - Not considered taxable withdrawals from cash values or account balances
    - Previously unclear for annuities
- **Policy exchanges:**
  - An annuity, endowment, life insurance or QLTC policy can be exchanged for a QLTC or combo product tax-free
    - Previously, exchanges to or from LTC not tax-free

## **Pension Protection Act**

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- **DAC tax change:**
- **All life and annuity policies with QLTC benefits capitalize at 7.7% of premium**
- **Even if QLTC benefits provided as a rider**
- **Big change for Annuities - were 1.75%**

## **Recent Design Trend**

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- **Avoid calling Life ADBs “LTC”**
  - Call them “Chronic Illness” ADBs per 101(g)
- **Why?: Avoid regulation as LTC**
  - Especially agent training
- **How?: Disability based trigger**
  - Does not require incurral of LTC services
- **Results?: Some states see through this, and regulate as LTC anyway**

## **LTC Combo Product Appeal**

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- **For the Customer:**
- **Easy to understand**
  - Pot of money vs. daily benefits and benefit periods
- **Cost effective**
  - Add-on premiums are generally less than stand-alone premiums
- **“Equity” exists in base product**
- **Tax efficient**

## **LTC Combo Product Appeal**

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- **For the Distributor:**
- **Easy to sell - does not require specialists**
  - May require training by regulation
- **Sold as an “add-on” to other coverage**
- **Underwriting leverages base policy UW**
  - Life combos may have a supplemental health application
  - Annuities usually have initial waiting periods

## **LTC Combo Product Appeal**

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- **For the Carrier:**
- **Mitigated risks**
  - Exposure limited to NAR for life ADB
  - Equity in base coverage acts like a “co-pay”
  - Early evidence of lower utilization
- **Existing distribution can sell them**
- **Valuable benefit differentiator**
  - Currently a “nice to have” option
  - Likely to become a “must have”

## **Conclusion**

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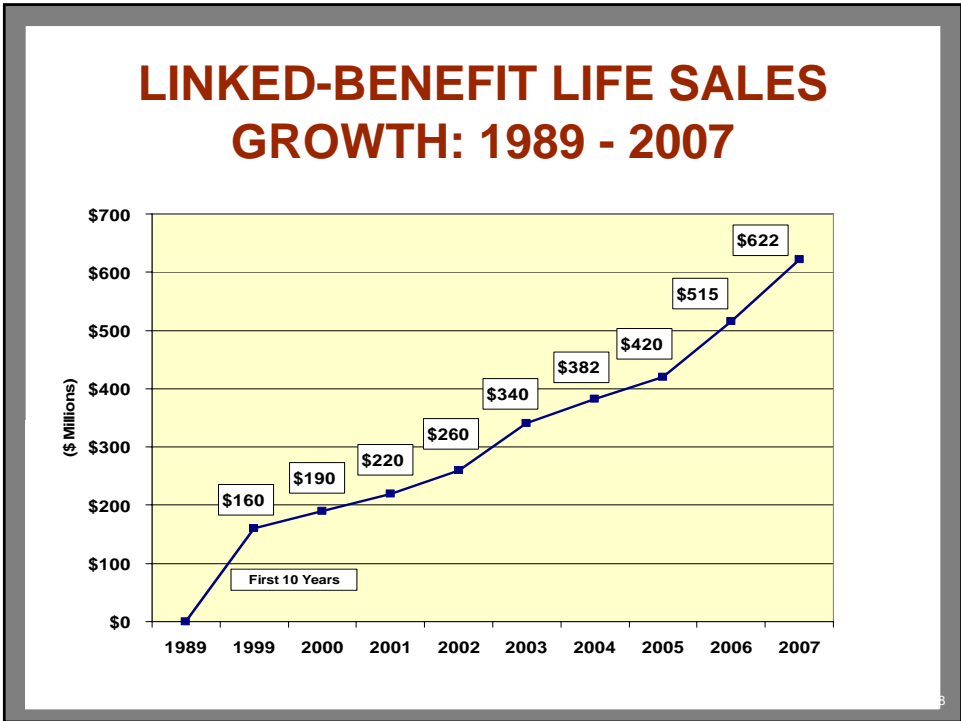
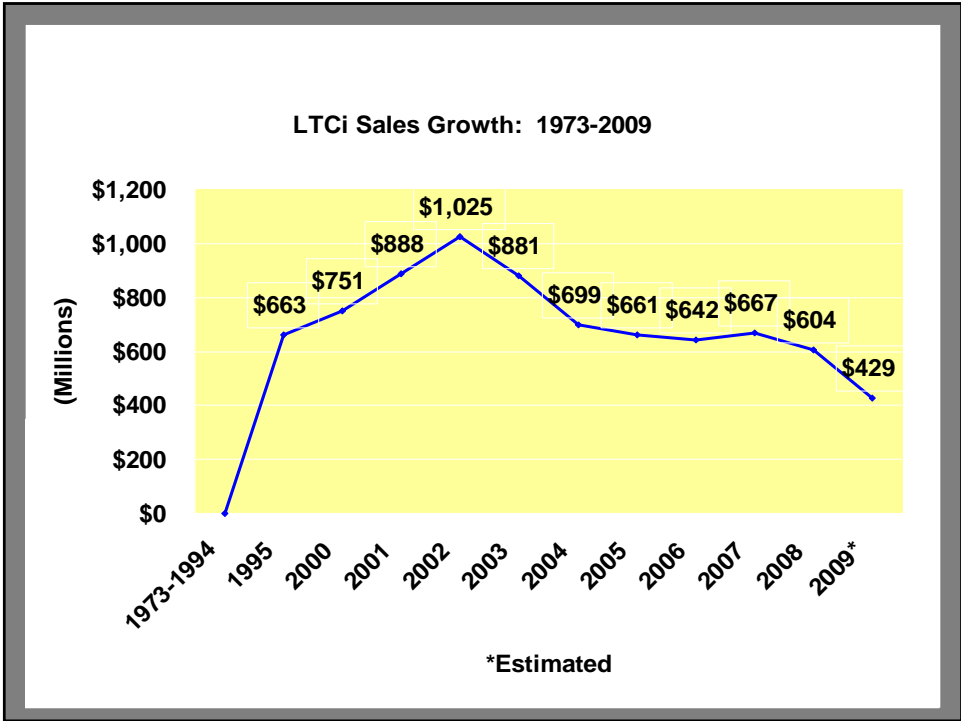
- **Clear need for LTC coverage**
- **Traditional LTCI has not and likely will never penetrate to significant levels**
- **Combo products are a viable alternative**
- **Will likely become a “must have” as they continue to increase momentum**
- **PPA appears to be “greasing the skids”**

# **Selling Combination Products**

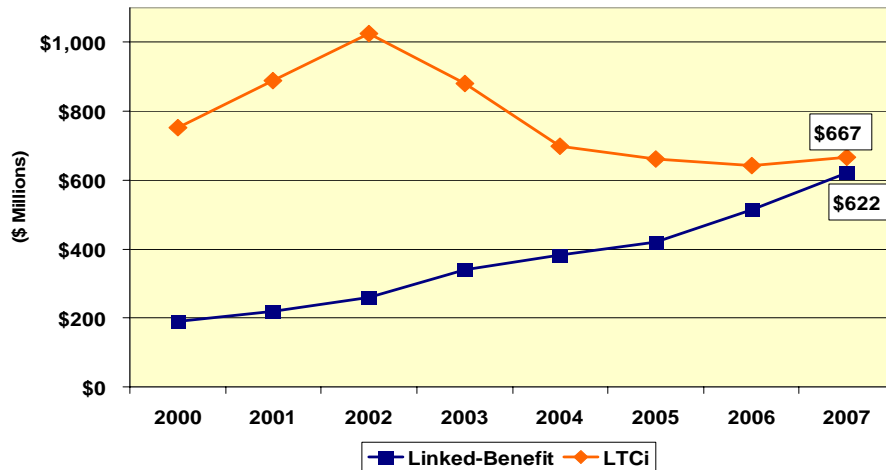
**Ronald R. Hagelman**

Republic Marketing Group, Inc.  
Ron@rmgtci.com

## **Where are We?**



## CONVERGENCE OF LTCI AND LINKED-BENEFIT LIFE SALES



## How did we get here ?

- It's all an incentive to buy !
- HIPAA 1997, DEFRA 2005 , Pension Protection Act 2006

## **The Metamorphosis of Combo's**

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- **The problem has been the available Agent pool has had difficulty making two separate and distinct sales at the same time. And if they did succeed it was often not enough money !**

## **Sales are on the Rise !**

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- **Two Reasons : 1) Blind Faith in the myth of Self Insurance 2) Underwriting opportunities**
- **“Asset Relocation” is a direct and powerful alternative for leveraging risk.**

**Will this new generation of Super Combo's  
Cannabalize stand alone LTC sales ?**

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- **First "I don't care !"**
- **Second 'I don't think so !"**

**A Secret hidden in plain sight  
is being revealed.**

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- **There are two ways to receive Tax Free benefits for ltc needs under HIPAA.**
  - **TQ LTCI under Section 7702b**
  - **Chronic Illness Riders under Section 101g**
- Beware the Rear End Loads !**

## **On the 70<sup>th</sup> Annivesary of the Wizard of OZ**

- Dorothy steps from dull Black and White into vivid Technicolor in Munchkin Land on Jan.1 2010.
- She is given Ruby Red Slippers to provide access to previously unavailable Tax Gain and she is receiving Tax Free benefits just because she is in OZ.

**THIS IS A CLASSIC OPPORTUNITY TO MAKE A SALE !**

## **It's a Milking Stool !**

- One Leg represents Stand alone LTCI
- One Leg represents Chronic Illness ADBR's
- One Leg represents Combo Life and Annuity

## **Contributing Dynamics**

- **Suitability --Under Section 24 of the 2009 LTC Model Regulation “ Every Insurer shall develop and use Suitability Standards” All the good and all the Bad of all the Choices .**
- **Producer Training—Under Section 9 of the Model Act “ An individual may not sell or negotiate Long Term Care insurance unless...”  
You must be Trained and Certified and Certification is a Double edged Sword.**

## **What does it all Mean ??**

- **Combo Sales will be driven by Fear and Greed.**
- **The Self Insurance Myth and Perceptions of Underwriting liberalizations will continue to fuel this transaction.**

## **What does it all Mean ??**

- **Almost all companies will have some sort of Combo options or be sold against.**
- **Almost all companies will eventually require Certification because it's cheaper and easier.**
- **Almost all sales conversations will uncover the necessity of LTC risk evaluation.**
- **Almost all Life and NQ Annuities are vulnerable to replacement.**

## **Every Agent will Learn to Ask ?**

- **Does your Life policy pay for LTC IF needed ?**
- **Does your SPDA pay for LTC IF needed ?**
- **Do you have any underperforming Assets ?**

**QUESTIONS  
FROM THE  
AUDIENCE**

**THANK YOU!!**