



2019 HEALTH
MEETING

JUNE 24-26 | PHOENIX, AZ



Session 17, Combo Products - How Health Benefits Can Make Life Insurance Better

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Combo Products

How health benefits can make life insurance better

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Session 017

June 24, 2019



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ACTUARIES®**

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Combo Products - Agenda

- Introductions
- Market landscape and evolution
- Carrier's perspective
- Distribution perspective

Introductions

Barry Fisher, LTCP

Principal

Ice Floe Consulting

Nancy Stoddard, FSA, MAAA

SVP and Chief Actuary

National Guardian Life Insurance Company

Robert Eaton, FSA, MAAA

Consulting Actuary

Milliman - Tampa, FL

Combo Products

Market landscape among products



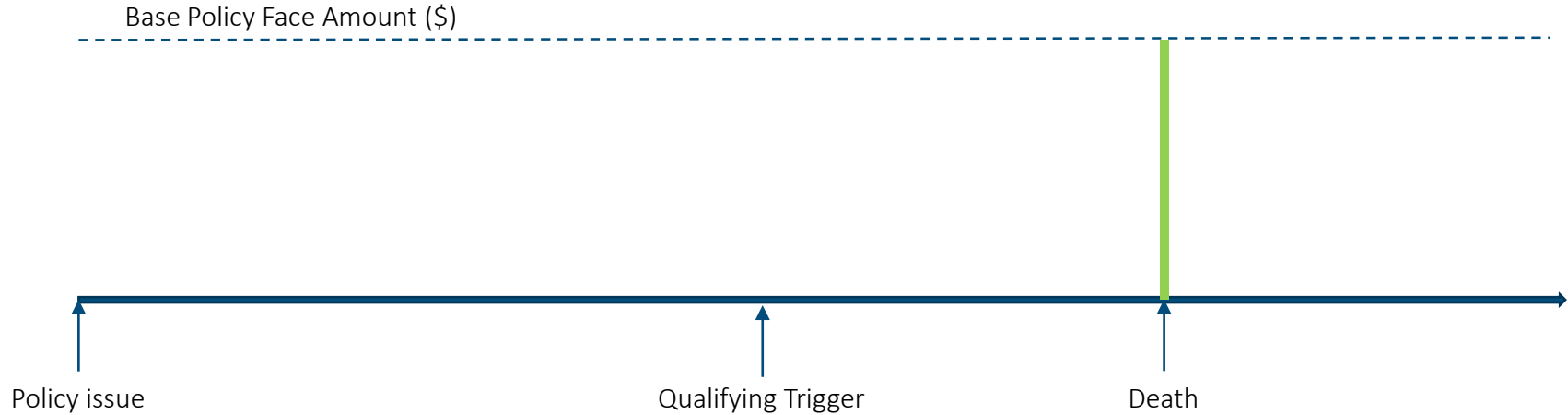
What is a combo product?

- Life insurance policy
- Health benefit allowing the policyholder to:
 - Take life insurance proceeds before death
 - Draw additional benefits
- Regulated as:
 - Life insurance: NAIC Accelerated Benefit Model Reg
 - Long-term care: for qualified LTC benefits
 - A&H: for certain chronic or critical illness benefits

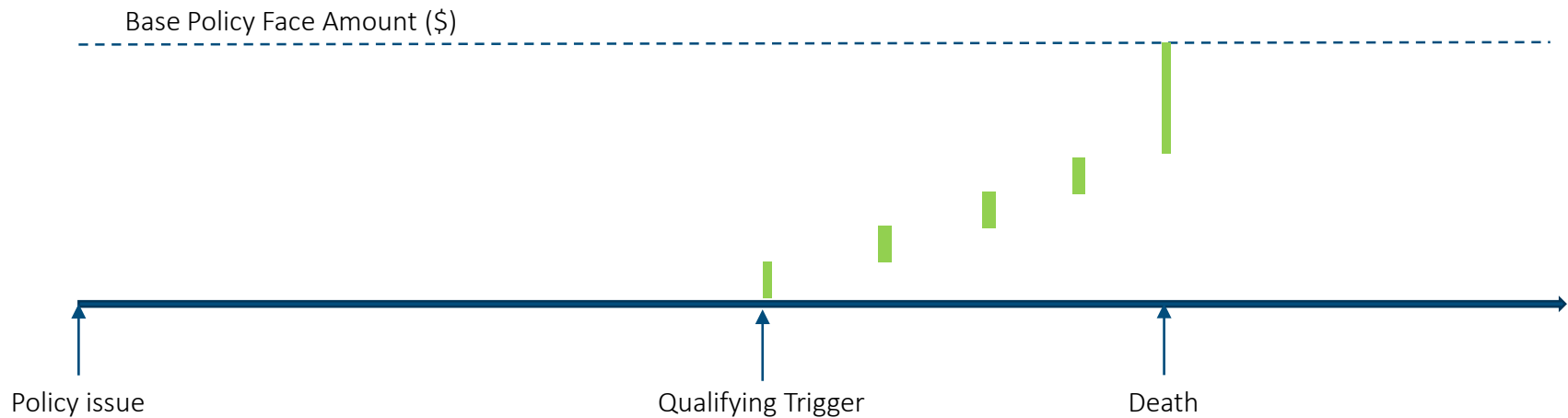
Benefit structures

- Acceleration
- Extension (and / or restoration)
- Standalone pool

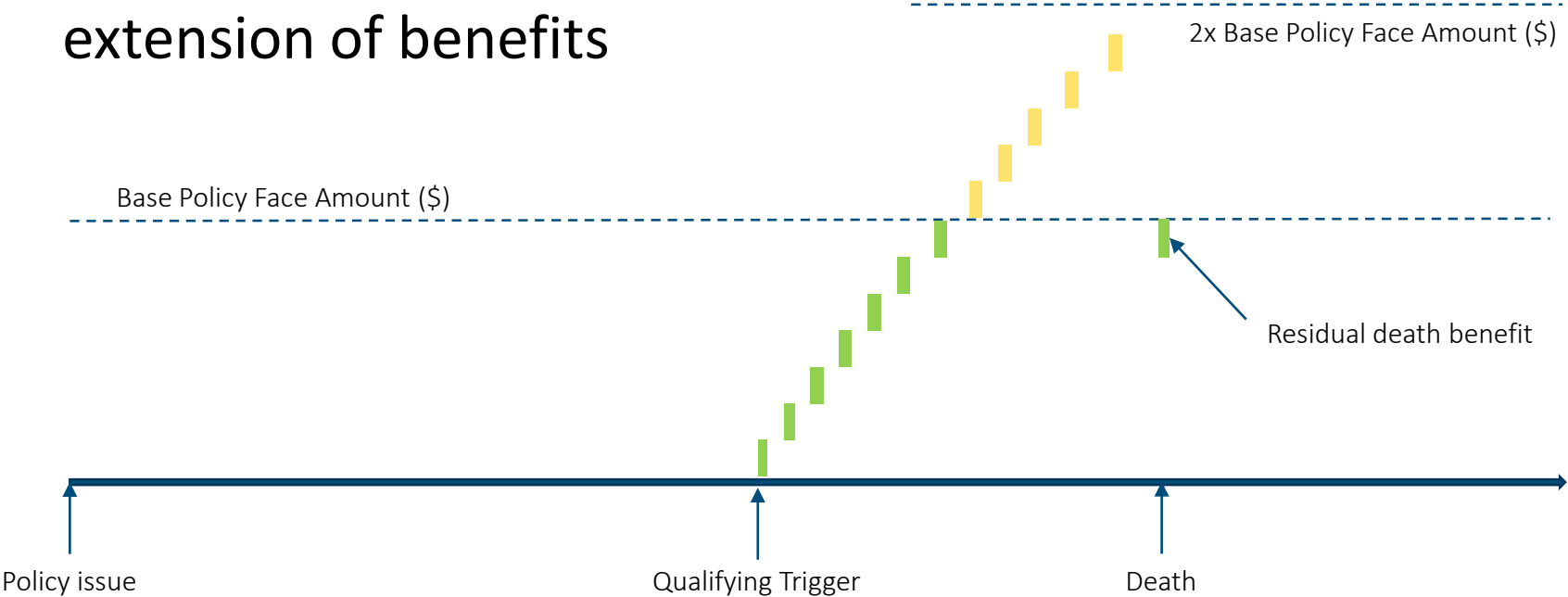
Benefit structures: Base Policy



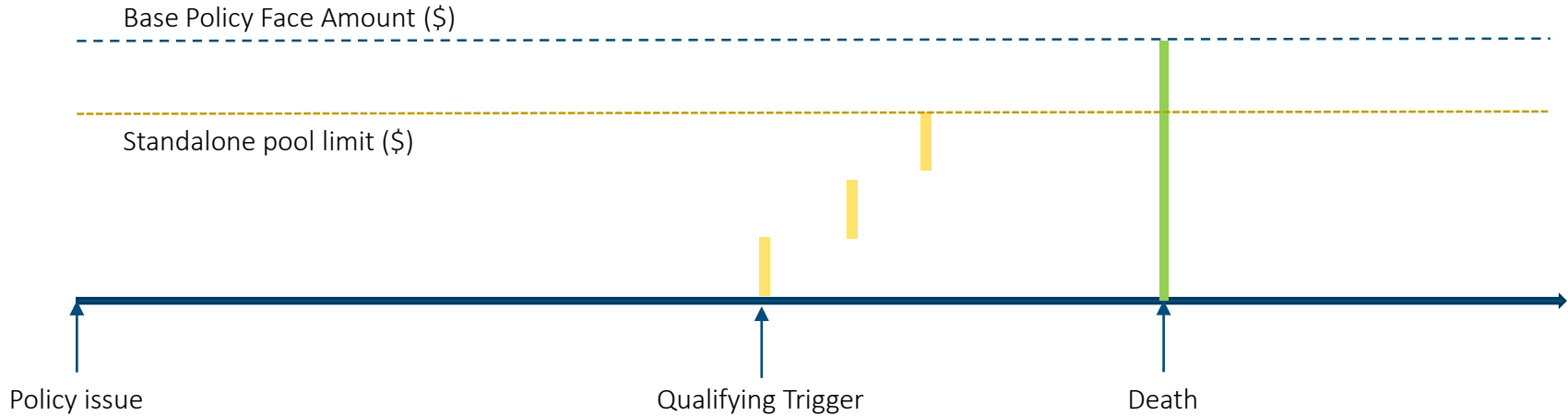
Benefit structures: Accelerated death benefit



Benefit structures: Accelerated death benefit with extension of benefits



Benefit structures: Standalone pool of funds



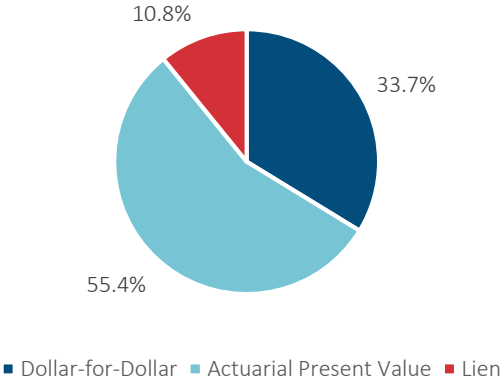
How is the benefit funded

- Premium paid for benefits received (dollar-for-dollar)
- Lien / loan
- Actuarial present value
 - Often \$0 premium, but company pays benefit reduced to reflect the value of providing payment early

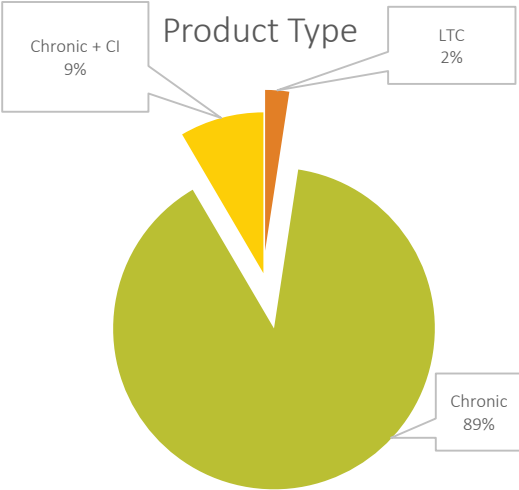
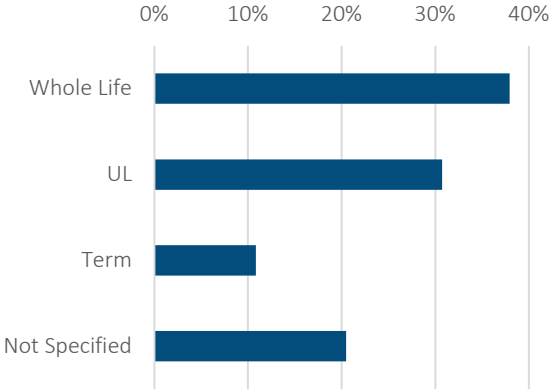
Products filed and approved

Chronic illness and LTC Combo Products

Accelerated Death Benefit Riders
Financing options



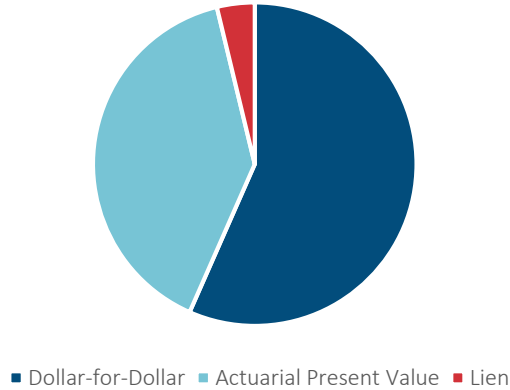
Base Policy Type



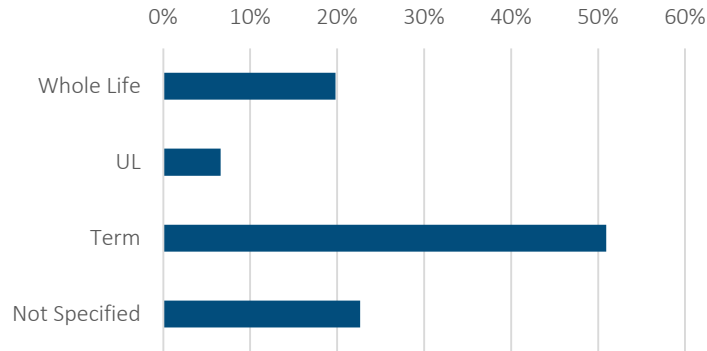
Source: Milliman Tampa Living Benefits Product Database, counts by unique products filed

Critical illness benefits

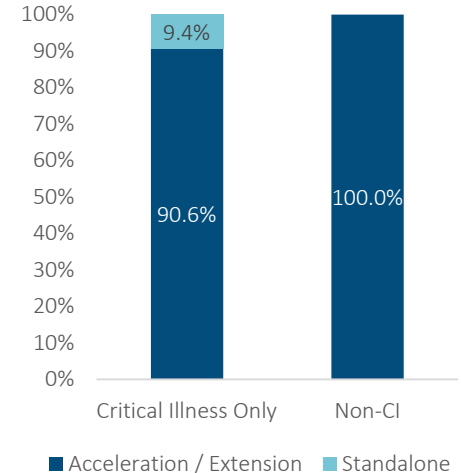
Financing options



Base Policy Type



Relation to Base Policy

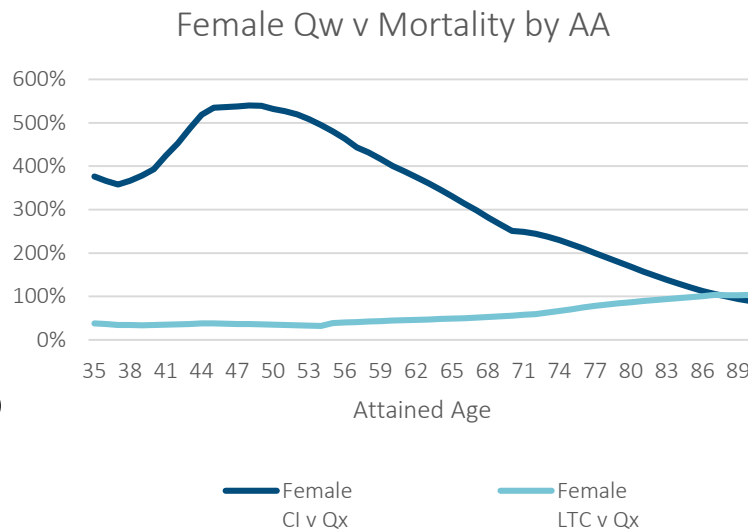


Popular benefit triggers (found in 30%+ of policies):
 Cancer, Heart Attack, Stroke, Renal Failure, Major Organ Failure, Paralysis, Bypass, ALS

Source: Milliman Tampa Living Benefits Product Database, counts by unique products filed

Critical illness combo considerations

- CI rates are higher than mortality at key ages
- Acceleration on CI trigger may mean receiving benefits 20-30 years in advance (unlike LTC)
- Harder to consider as “incidental”
- APV financing approach will lead to very large discounts
- Not as consumer-friendly



Combo Products from a Carrier Perspective

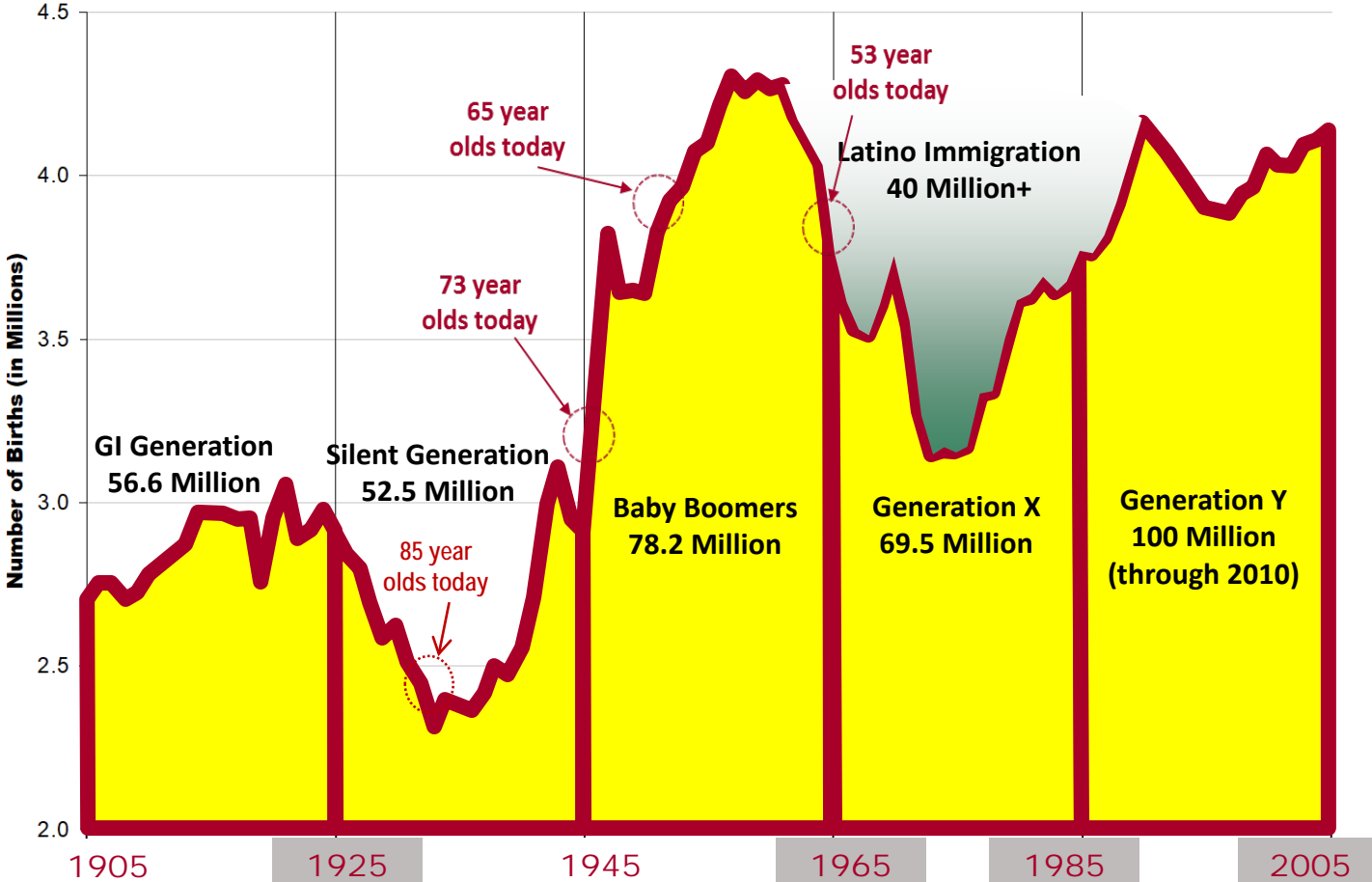
Nancy Stoddard, FSA, MAAA



Background

- National Guardian leader in Pre-need life insurance sales
- Acquired companies or blocks of business to increase profits on renewal premium
- Looking for a permanent solution to generating renewal profits
- Focused on Senior Market since close to Pre-need market
- Entered LTC Market in 2016 in partnership with LifeCare selling traditional LTC products
- Built distribution relationships in individual brokerage market
- Were presented “Combo” product opportunity targeting middle market

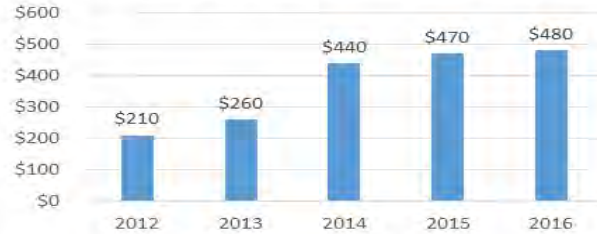
US Live Births 1905 - 2005



Understanding the LTC and Combo Market

Combination Products vs. Stand-alone Long-term Care Sales

Combination Annuity / Long-term Care Annuity Sales (Premium in millions)



Source: LIMRA 2016 U.S. Individual Annuity Yearbook

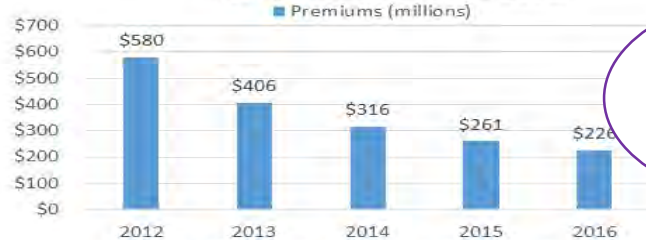
Life Insurance Combination Product Sales (Premium in billions)



Source: LIMRA Life-Combination Sales Survey

Combo Sales have grown to \$3.6 Billion

Individual Stand-alone LTCI sales have declined nearly 60 percent since 2012



Source: LIMRA U.S. Individual LTCI Sales Survey

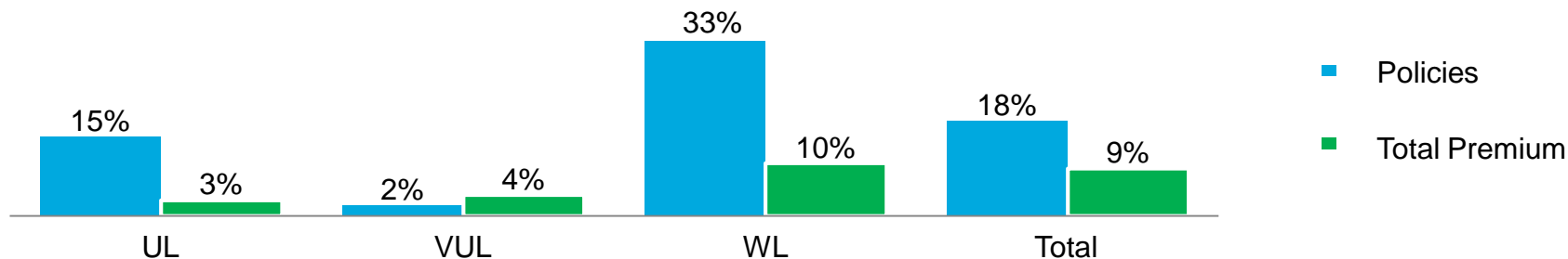
LTC Sales have declined since 2012



Individual Combo Products Sales Growth

- For the 2nd year in a row, individual life combo product sales showed growth for both premium and policies.
- 16 companies experienced an increase in both policy and premium sales.
- Total sales in 2016 reached over \$3.6 billion in premium and over 250,000 policies. Combo products now represent 22 percent of total new individual life insurance premium and 12 percent of annualized premium.⁺

2016 Premium and Policy Growth*



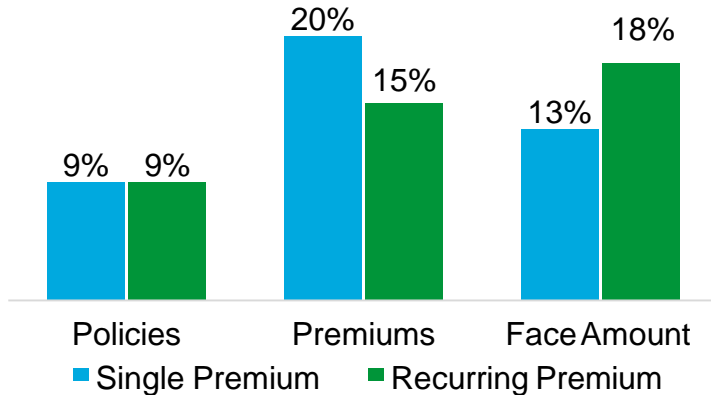
⁺Based on participants in LIMRA's 2016 *Quarterly Individual Life Insurance Sales Survey*.

* Total includes term products not reported separately due to insufficient number of carriers reporting.

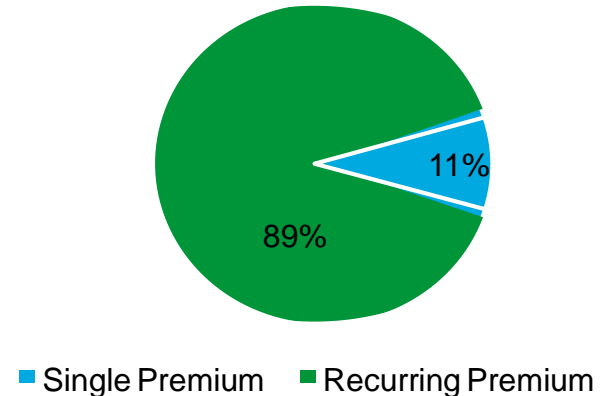
Individual Combo Premium Type Market Share

- Both single and recurring premium products experienced similar healthy growth in the number of policies issued in 2016.
- Total new single premium grew 20 percent compared to 2015, while recurring premiums grew 15%.
- Policy market share by premium type did not change from 2015, with recurring premiums retaining the largest share of new policy issues.

Growth by Premium Type*



Premium Type Market Share*



* Excludes term products not reported separately due to insufficient number of carriers reporting
Source: LIMRA 2016

Target Market – The Middle Market

Middle Mass*

- 50-70 years old
- Income average \$75,000
- Assets > \$100,000
- Low ability to pay for catastrophic cost out-of-pocket
- Good ability to pay for LTCi/Combo



Mass Affluent*

- 50-70 years old
- Income average of \$132,000
- Assets > \$400,000
- More discretionary income to spend on LTCi/Combo



*Society of Actuaries, “Long-Term Care and the Middle Market”, Bodnar, Forman and Zehinder, 2016.

Potential of Middle Market

- \$2,600 LTC premium (current) reaches ~7% of total market
 - \$1,800 range opens ~40%
 - \$1,200 range opens ~75%

(Population in Millions)	Age / Population	15 - 24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 - 54	55 - 59	60 - 64	65 - 69	70 - 74	75+
Income/ Population	122,459	6,314	9,251	10,767	10,116	11,218	11,533	12,535	12,217	10,585	8,932	6,417	12,575
< \$25k	30,204	~71M outside the target market											
\$25k - \$50k	29,728												
\$50k - \$75k	21,418	~39M seen as high potential					~12M in traditional market						
\$75k - \$100k	14,284												
\$100k - \$150k	15,429												
\$150k - \$200k	6,116												
\$200k +	5,460												

Sources: 2013 US Census data and 2014 proprietary carrier research

LTC and Chronic Illness Differences

Long-Term Care Acceleration Rider		Chronic Illness Acceleration Rider		
7702B Definition		101(g) Definition		
May be sold as long-term care coverage		May NOT be sold as long-term care coverage		
Agents may need LTC certification and continuing education		Agents do NOT need LTC certification and continuing education		
Allows for extension of benefits beyond face amount		Cannot pay total accelerated benefits in excess of face amount		
Required to offer inflation benefit		Not required to offer inflation benefit		
Differentiators of 7702B Products		Differentiators of 101(g) Products		
Indemnity	Reimbursement	Indemnity	Discounted	Lien
Monthly benefit is paid without regard for bills or expenses. Excess benefits may be used for other expenses.	Only actual costs of qualifying long-term care services are reimbursed.	Chronic Illness monthly benefit are determined at issue. Monthly benefit is paid without regard to actual expenses.	Benefit amount is determined at time of claim based on age, gender, health, class, cash value and interest rate.	Benefits paid are treated as a loan against death benefit.
Additional premium is charged	Additional premium is charged	Additional premium is charged	No upfront charge.	No upfront charge.

Right Time and Right Circumstances

- High sales potential as Baby Boomers age in the Middle Market
- Fills a social need for today and tomorrow
- Able to leverage LTC distribution relationships
- Product design and underwriting approach attractive to the Middle Market

NGL Combo Product Design

- Whole Life with Chronic Illness Rider
 - Issue Ages: up to 75
 - Face Amount: up to \$250,000
 - Payment options: Single premium, Limited Pay
 - Rates: Gender specific, Smoker/Non-smoker, Preferred/Standard, Face Amount Band
- Terminal Illness Accelerated Death Benefit
 - Required when offering 101(g) rider

NGL Combo Product Design

- Accelerated Death Benefit for Chronic Illness Rider
 - 101(g) definition
 - Separate rider premium
 - Monthly benefit is a percent of the face amount
 - No restriction on the use of proceeds
 - Definition of Chronic Illness – Same as LTC
 - Unable to perform at least 2 out of 6 ADLs or severely cognitively impaired
 - Certified by a Licensed Health Care Practitioner that chronic illness is expected to persist for at least 90 days
 - Elimination period per claim
 - Can accelerate up to 90% for Chronic Illness

NGL Combo Product Underwriting

- Accelerated Underwriting approach using drop ticket to start the application and telephone interview
- Cognitive screening
- Additional underwriting information = RX, MIB, MVR, APS if necessary
- Targeting rapid underwriting decision
- Predictive Analytics – Examples: Lexus Nexus, TrueRisk Score

Sensitivity Testing Impact on Profit Margin

Change in Profit Margin	LTC	Combo
90% Mortality	-2.1%	1.1%
90% Mortality, 110% Morbidity	-4.6%	0.0%
110% Morbidity	-2.4%	-0.2%
200% Morbidity	-19.4%	-1.5%
Net earned rate @ 5% yrs 10+	6.8%	7.2%

Combo Products from a Distribution Perspective

Barry Fisher



View From the Field

Disruption!

Demise of Traditional LTCi & Rise of Combos

What Do We Call “IT”

- Long-Term Care Insurance? – or
 - *The product formerly known as long-term care insurance?*
 - *The Un-Long-Term Care Insurance?*
- Chronic illness
 - *IRC §101(g)*
- Long-Term Support Services
 - *Government sure has a pithy way with words!*
- Extended Care
 - *Wait until compliance gets their hands on this!*

Understanding The Risk

- Pre-HIPAA policies were generally considered supplemental
- HIPAA 1996 -- Tax-free benefits & tax deductible premiums lead to selling catastrophic policies to the affluent
 - *Result -- Sold too much coverage to too few people*
 - *New business premium increases crowd-out most consumers -- @ 2005*
 - *In-force premium increases scare the hell out of the rest*
- Most combo product sales continue to be focused on the affluent
- A return to supplemental thinking is in “the wind”
 - *Better data allows us to make a better case for smaller benefit policies*

LTSS Risk in Perspective

Old School LTCi Plan Design

- “If you live long enough you’re likely to need long-term care”
 - How much long-term care insurance is enough?
- Look at national or local median costs
- Recommend planning for the catastrophic 10-year Alzheimer's claim
 - Generally “recommend” replacing the entire risk
 - “The Ronald Reagan” Cognitive Claim
- E.g. -- \$200/day, “lifetime” or 5-year benefit, & 5% compound inflation
 - \$73,000/per year benefit “pool” doubling every 14.2 years

Solution

- Client age 55 in 2005
- \$200/day – 5-year benefit period – 5% compound inflation benefit
- Initial Pool of Money = \$365,000
- Age 69 in 2019 = Pool of Money = \$730,000
- Age 83 in = 2033 = Pool of Money = \$1,460,000
 - Typical annual premium = @ \$2,700/year

LTSS Risk in Perspective

What We've Learned

- 2010 Milliman Actuarial Claims Study indicated the following:
 - 50% claims closed in year
 - 75% of claims closed in 2-years
 - 95% of claims closed in 5-years
 - \$100,000 in today's dollars would pay for 80% of all claims
 - 17% of claims \$250,000 or more – catastrophic
- Average total out-of-pocket cost of LTSS - \$72,000
 - U.S. Department of Health & Human Services -- 2015
- For most people total costs fall between \$25,000 - \$240,000
 - Price Waterhouse Cooper -- 2017

U.S. Department of Health & Human Services – 2016

- Average cost of HIPAA Level Long-Term Care Support Services
 - 2015-2019 = \$75,900
 - Average duration of claim
 - Men = 1.5 years
 - Women = 2.5 years

Who Are The Customers

- Affluent = 17% of market
- Middle market = 83%
 - *Society of Actuaries Long-Term Care and the Middle Market – May 2016 (Bodnar, Forman & Zehinder)*
- Go where the money is or go where the people are?
 - *Not a mutually exclusive choice*
- Upper-end Mass-Middle Consumer
 - *Ages 50 - 70*
 - *\$75,000 - \$150,00 per year income*
 - *\$100,000 - \$300,000 liquid assets*
- For many consumers \$2,000 - \$4,000 per month of supplemental coverage for 2 – 3 years allows them to bridge the gap between their cash-flow & the care that they want and need
- Is it time to broaden our focus for more sales & better risk management?

The Forgotten Customers

Agents & Advisors

- Consumers want a relationship with an advisor
 - *2012 Ernst & Young Voice of the Customer Survey*
 - *2015 Deloitte Life Insurance Consumer Purchase Behavior Study*
 - *2016 SOA Middle Market Life Insurance Thought Leaders Report*
- BUT -- 90% of agents & advisors don't want to talk about extended care
 - *Rate increases, product complexity & bad press have 'em running for the hills*
- Few long-term care insurance specialists left
 - *Reticent about selling combo products*
- Overwrought continuing education requirements – “the last straw”
- New product development tip -- Distribution must be onboard from “Day One”

What Do “They” Both Want In Combos?

- Simple “no-lose” extended care solution
 - *Fewer moving parts the better*
- Guaranteed premiums
 - *Whole life or guaranteed universal life*
- Guaranteed extended care benefits
 - *No guess work at time of claim*
- Cash benefits
 - *Removes “reimbursement method” guesswork & complexity at claim time*
 - *Can pay family member or pay for the care they want*
- Cash values either for loans, return of premium or both
- Streamlined & online approach to underwriting

Extended Care
Planning Solution
With No
Regrets

Current Market Overview

Internal Revenue Code Dyslexia

- IRC §7702(b) – HIPAA 1976 – Health Insurance
 - *Tax deductible premiums & tax-free benefits*
- IRC §101(g) – Life Insurance – ABRs for terminal, chronic & critical illness
 - *Tax-free benefits*
- Dueling Products
 - *Traditional long-term care insurance -- §7702(b)*
 - *Life insurance + ABRs for chronic illness -- §101(g)*
 - *Life insurance + ABRs + EOBs -- §7702(b)*
- Evolving §101(g) Chronic Illness Regulations
 - *Current regulations allow for “qualifying event” closely resemble HIPAA Gold Standard*
 - *Older policies still on the market can require permanent disability to qualify*
 - *Discounted payment method (“Barry’s opinion” = bad old days of post-claim underwriting)*
 - *Marketed as FREE “living benefits”*

Distribution Overview

- Independent Distribution
 - *National Marketing Organizations*
 - Direct to Agents & Advisors
 - *Independent Marketing Organizations*
 - Groups of Brokerage General Agencies
 - Financial advisors focused organizations
 - Big push in “alternate distribution”
 - *Direct to Consumer through Lead Generation & Associations*
- Career Companies
 - *E.g. -- Northwestern Mutual & New York Life*
- Direct to Consumer
 - *Carrier direct or online*

How the Sale is Made

It's a Numbers Game

- “Greasy Kitchen Table”
- Corporate conference table
- Associations & affinity groups
- Worksite – upper level management
- Phone & “zoom” meeting sales
- Annual review sales -- New Fiduciary Rules will be a game changer
- Internet marketing for lead generation
- Columbo Sale – *“Oh, by the way ...”*

Veritas vos Liberabit

The Truth Will Set Us Free

- The Good, The Bad & The Ugly over past 25-20 years
 - *Learn from all of this and move on – let's not be totally risk adverse!*
- The Private Sector Obligation
 - *Insurance industry must play its part to help consumers mitigate the extended care risk*
- Energy right now is in the combo market
 - *Life insurance is driving extended care planning; and*
 - *Extended care planning is driving life insurance sales*
- Don't count traditional long-term care insurance out
 - *Tax treatment of premiums and benefits creates value*
 - *Can be a lowest-cost way to cover the risk*



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