

# How LTC “Hybrid” Products Really Work

## “Hybrids” for Dummies

AALTCI Producers Summit

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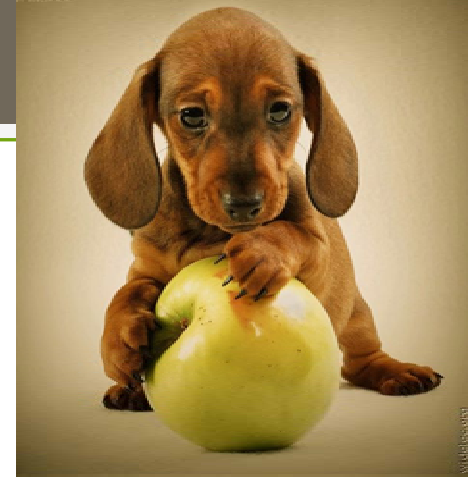
V.P. LTC – The National Benefit Corp

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A New Door  
to LTC  
Planning has  
Opened

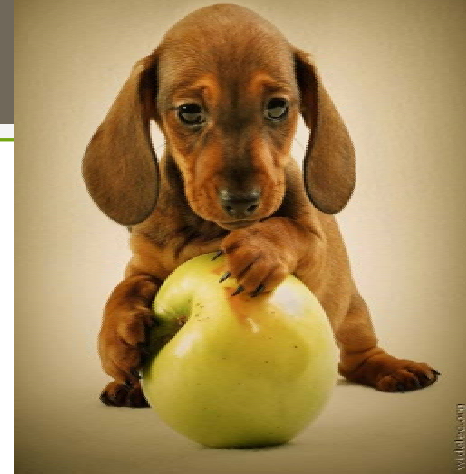
# Has this been you?



- "This is too good to be true...what's the catch?"
- "I've looked at these things before; they are not nearly as good as "real" LTC (or Life Insurance or Annuities) for the customer."
- "I am not comfortable with how (Life Insurance) or (Annuities) work. I do not want to offer a product that I do not understand."
- "Committing a large single premium takes away from my ability to grow my client's portfolio; I can do just as well investing their money."

**If so, we are here to help today.**

# Misconceptions We Will Solve



- The LTC coverage in a “Hybrid” is not as good as “real” LTC!
- If my client is uninsurable, they can buy one of these policies instead!
- **These Policies are too expensive!**
- If my client is uninsurable, they can buy one of these policies instead!
- **These policies are too confusing!**
- If my client is uninsurable, they can buy one of these policies instead!

*Section 844: Treatment of Annuity and Life insurance contracts with a long-term care insurance feature*

- It allows LTC benefits from annuities policies to pay income tax free (so long as the policy meets tax qualified LTC design standards).
- It clarified the treatment of how Life Insurance policies rider charges were being taxed.
- It allows for the 1035 exchange of an annuity that does not have a LTC rider to one that does have one.
- It allows for the 1035 exchange of a life insurance policy or annuity to a stand-alone LTC policy.

*These provisions of the PPA became effective as of 1-1-2010*



## Why “Hybrids” Now?

Pension  
Protection Act  
of 2006

# A Better Way to Self-Insure

“Hybrids” can help answer one of the most common and most difficult objections we all hear all too often....

*“What happens if I buy this policy and never need LTC, isn't this just a waste of my money?”*



# Two Basic Types of "Hybrids"



## Life/LTC

- "In the course of our lifetime we will either Live...then simply Die without ever needing LTC ---**OR**--- we will Live....Need LTC...then Die, there is no choice in the matter"

## Annuity/LTC

- Reposition an existing Annuity contract to allow for leverage and tax benefits with a qualified LTC contract, plus you have a "**Plan**" if you ever need LTC.

# Life/LTC policies – How they work:



- ▶ **Single Premium** payment design
- ▶ Includes three essential benefits
  - **Death Benefit**
    - Typically equal to 2X the premium
  - **Long Term Care Benefit**
    - Typically equal to 5-6X the premium
  - **Return of Premium Benefit** – No surrender charges for “quitting”

**Example: \$100,000 premium creates \$200,000 Death Benefit and \$600,000 for LTC paid out over (6 years)**



# Life Policies with an LTC Rider



- ▶ Offers an LTC benefit equal to the Face Amount of the policy.
  - Essentially an “Accelerated Benefit” for 100% of the Death Benefit if eligible for LTC services
  - Benefits are received 100% Tax-Free under Qualified LTC contract standards
  - Pay-out of benefits limited to:
    - Total Death Benefit
    - An established pay-out schedule – typically 50 months

**Example: \$200,000 policy creates  
\$4,000/month to pay LTC service costs  
for 50 months**

**Benefit payments are often subject to monthly maximum payments**

# Annuity/LTC policies – How they work:



- ▶ Single Premium Tax Deferred Annuity Contract with an LTC rider
  - Offered with Current and Guaranteed Interest rate crediting, just like any other SPDA
  - Standard Surrender period design
    - Typically 7 years
  - LTC Rider will **“Leverage”** the contract for qualified LTC expenses. (Paid in Monthly benefits)
    - Typical leverage 3X paid out over 6 years
      - Off Accumulated balance at time of claim
      - Off original Contract contribution
  - LTC Expenses paid out **Tax-Free**, including all tax deferred growth

**Example: Contribute \$100,000, if LTC needed would have \$300,000 (Or triple total accumulated value) for LTC expenses over (6 years)**

# How do they Compare?

Carrier/Product	Single Premium	Death Benefit	Monthly LTC Benefit	Total LTC Benefit
Genworth TLC	\$100,000	\$193,906	\$8,079	\$581,718
Lincoln MoneyGuard	\$100,000	\$166,406	\$6,934	\$499,218
Hancock LifeCare	\$100,000	\$174,727	\$7,280	\$524,181
Nationwide UL	\$100,000	<b>\$294,540</b>	\$5,891	\$294,540
United Living Care Annuity	\$100,000	<b>\$153,462</b> (AV @ Age 85)	<b>\$6,307</b>	<b>\$460,386</b> (At Age 85)
MoneyGuard Annuity	\$100,000	\$134,397 (AV @ Age 85)	\$3,226	\$322,670 (At Age 85)

**One significant difference of note is how the policies are Underwritten.**

Genworth TLC and Nationwide UL are Fully Underwritten.  
All others use a Simplified Underwriting process.

*Information is assuming a 65 year old married Female, non-smoker and were current as of 1-1-2011*

**TAKE 10**

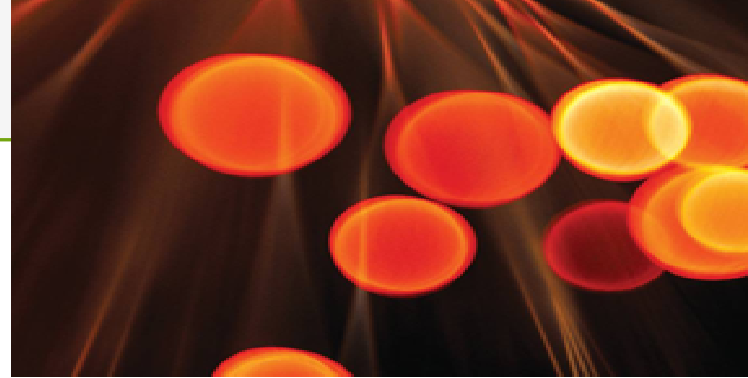


# “Hybrid” UNDERWRITING



IT IS CRUCIAL TO UNDERSTAND THAT THESE PRODUCTS ARE BEING “UNDERWRITTEN”. SOME HAVE FELT THAT “HYBRIDS” ARE DESIGNED FOR CLIENTS THAT CANNOT OTHERWISE PURCHASE AN LTC POLICY OR FOR THOSE THAT HAVE BEEN DECLINED COVERAGE. THIS IMPRESSION IS WHOLLY UNTRUE, AND IN FACT UNDERWRITING COULD EVEN BE CONSIDERED AS MORE DIFFICULT THAN A LIFE OR LTC POLICY ALONE.

# Underwriting



- **Full Underwriting:** *(Est. 6 weeks processing time)*
  - Completion of full application paperwork
  - Paramed Exam, including Blood and Urine samples
  - Telephone Interview or Face-to-Face interview if over age 70
  - Medical Records will be obtained in nearly every case
- **Simplified Underwriting:** *(Est. 10 days processing time)*
  - Completion of "Ticket" application, usually only one page.
  - No exams
  - Telephone interview with a nurse, who also completes the standard application paperwork for signature upon issuance of the policy.
  - Medical Records not obtained.

# Which is "Better"?

I asked my wife if old men wear boxers or briefs?  
She said Depends.

[www.pmcaregivers.com/Humor.htm](http://www.pmcaregivers.com/Humor.htm)



**Each client offers their own unique circumstances.**

- While the "Full Underwriting" policies do typically offer greater leverage and benefits, clients may not want to undergo the full scrutiny of the underwriting process. If they are "rated" due to their history, the policy benefits would be reduced and may be less appealing than the competing products as a result.
- With "Simplified Underwriting" products, the agent may not be aware of history that would render the applicant uninsurable.
  - With some medical challenges, carriers will offer a policy when processed through this method when they would not do so with Full Underwriting.



## Sales Idea's

Where do I go from here?

How are these Products Sold?

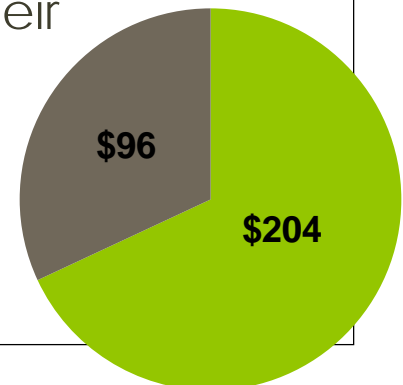


# Identifying the Market



- ▶ Over \$300 Billion in non-qualified Annuities in the marketplace\*
  - Over \$96 Billion of those are outside surrender periods\*
- ▶ Life Insurance policies with cash values where the policy benefits are no longer felt to be needed.
- ▶ Other non-qualified funds
  - Many clients moved towards safe haven “cash” positions in the past 2 years
  - As clients age they are seeking protection of their portfolio and are willing to allocate portions of their wealth to protect the balance of their legacy
  - Clients that are seeking additional ways to manage their accounts on a tax-favored basis

•\* Source – LIMRA, 2008 “The 2007 Individual Annuity Market”



# Consumer LTC Strategy

## All Consumers Fall into One of 3 Categories

### Long Term Care Insurance Purchasers

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

### Self-Insuring

- Expect to use existing assets to fund LTC need
- Don't like idea of paying premiums if they never have a long term care event
- Solution = Linked Benefits Product

### Medicaid

- No private insurance solution

**7% Market Penetration\***

**93% of the Market is Uncovered  
by Traditional LTCI**



# Marketing to “The Next 10%”

- Alternate, or “Hybrid” products such as these described may appeal to another segment of the marketplace.
- These “Asset Transfer” style products may not appeal to or be appropriate options for all clients, but by the same respect, Traditional LTC is not always appealing to or appropriate for all clients either.
- Understanding your clients unique needs and situation is the key to developing an offer that may include Traditional design options, “Hybrid” style options or possibly a combination of the two.



Having access to more than one style of Insurance Solutions may give you the opportunity to offer policies to another 10% of your clients.

# Our Panel of Sales Experts



- Kerry Meek Anderson
- Laura McReynolds
- Peter Cross

# Time to Fill and Spill



# 1035 Exchanges Asset Transfer Options



- Same 1035 Exchange rules apply, plus some new twists! Allowed Transfers under the PPA include:
  - Life Cash Value into an Life/LTC Hybrid Contract
  - Life Cash Value into an Annuity/LTC Hybrid
  - Annuity Value into another Annuity/LTC Hybrid
- PLUS:
  - Life Cash Value OR Annuity Value into a Traditional LTC Contract as a “Single Pay” .
    - Limited “Single Pay” products available at this time from Mutual of Omaha and Transamerica in select states.

Work closely with your clients tax advisors as incorrect or disallowed 1035 Exchanges could have significant negative tax consequences.

Only applies to Non-Qualified Contracts

# More 1035 Ideas



- Unique opportunities: (Genworth)
  - 1035 from any Non-Qualified Annuity into a Genworth Tax-Deferred or SPIA contract.
  - Creates a stream of “Partial” 1035 exchanges equal to the Annual premium for a traditional LTC policy.
- Joint Annuity Opportunity
  - Since Genworth offers a true “Joint” LTC Contract (Shared Care policy), you may transfer into a new Joint Annuity and create the same “stream” of partial 1035’s into the LTC contract.

Currently only offered by Genworth

# CARRIER PANEL



- Representing Genworth –
  - Doug Burkle - Linked Benefit Product Development Leader
- Representing Lincoln Financial –
  - Zach Brommer – Regional Marketing Specialist
- Representing Mutual of Omaha –
  - Steve Pike – Regional Vice President





# The Approach and The Close

- Seek out those clients that have not been receptive to attempts to look at Traditional LTC offers.
- Seek out those clients that have indicated that they felt that they would be willing to “self-insure” their LTC risk.
- Offer to re-position a small portion of their assets that they would be accessing to cover LTC expenses should they ever need care.

**ANY  
QUESTIONS?**

**It's Time to  
Get  
Started!**

