

2006 LTCi Producers Summit LTC Hybrid Products

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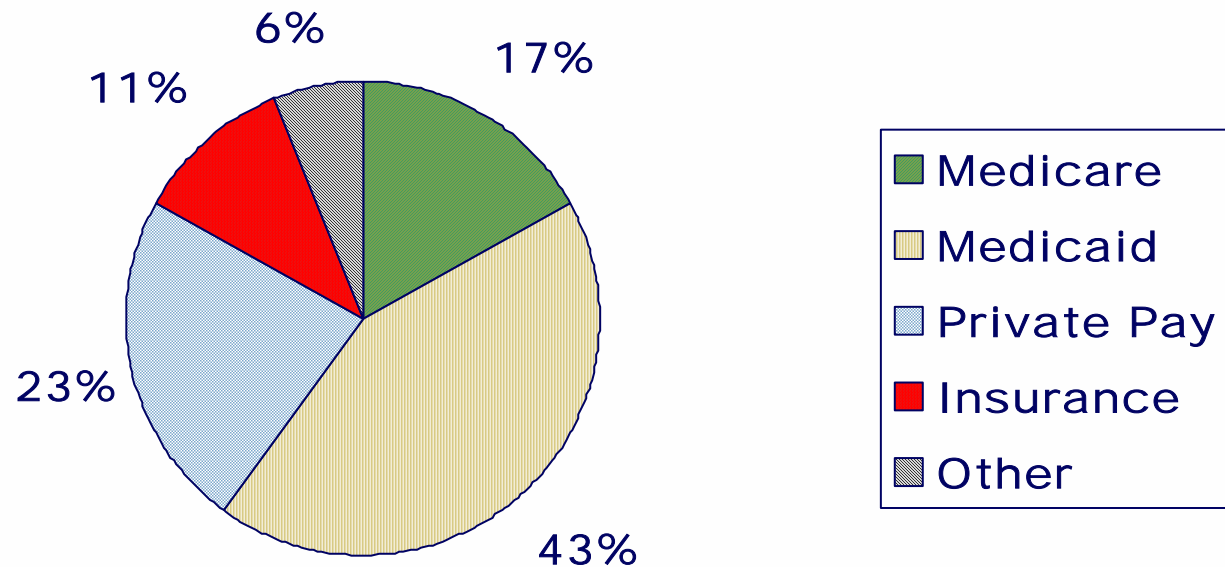
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Background – Hybrid LTC Plans

- Hybrid life/LTC coverages beginning a period of expansion
 - Shrinking number of insurers selling stand-alone LTC
 - Increased rates for new LTC sales
 - Companies willing to gain experience through reduced risk plans
 - Significant product development activity in the works
- Interesting new annuity/LTC combinations appearing, with more in development due to new tax law changes

LTC Market Needs



Average 2003 semi-private nursing home room costs - \$158 per day
Average 2003 private nursing home room costs - \$181 per day

LTC Market Needs and Market Positioning

- The U.S. population over age 65
 - Over 35 million
 - The number of LTCL policies in force in 2002 was 5.7 million, up from 800,000 in 1987
- A modest number of carriers offering stand-alone LTCL coverage - over 70% of LTCL in the top 10 companies

2005 Sales Characteristics

2006 Broker World Survey

- Sales: \$611 Million (2005) Vs. \$668 Million (2004) – 8.4% Decrease
- Comprehensive Coverage (95.7%)
- Tax-Qualified (97%+)
- Average Issue Age 58.6 (vs. 61.3 in 2004)
- 42.2% Compound Inflation Protection, 14.4% Future Purchase Option, 18.9% no inflation
- 26% Lifetime Benefit Period (down from 33% in 2004)
- 74.3% 90+ Day Elimination Periods (up from 70.6% in 2004)

Life/LTC Product Variations

- Single premium universal life or VUL or WL
- Flexible premium universal life or VUL
- Supplemental benefits only structure
 - Gray area of tax law, regulatory requirements, limited marketing value, and some risk to company with potential downside to consumer
 - Simple; or...
- Accelerated Death Benefit LTC rider (ADB)
- Extension of Benefit LTC rider (EOB) – second generation combo plan feature
- Inflation benefit options

Market Positioning

- First generation
 - ADB only
 - Low cost
 - Self Insurance
 - Protect the producer
- Second generation
 - Adds EOB
 - Asset re-positioning: Return assets, a multiple of assets (DB), or a multiple of DB (EOB)
- Distribution channels
 - Life producers, banks, annuity producers, financial planners

Market Positioning – Life/LTC Combo Plans

- Lincoln, NY Life, Golden Rule, Genworth, John Hancock, AXA, and more
- Many major carriers in development
- Lincoln and Golden Rule each over \$1 billion in assets under management
- Genworth set up a new division for combos
- Some carriers \$100 to \$200 million plus in newpaid premium
- UL chassis
 - Genworth (ADB + EOB)
 - Lincoln (ADB + EOB)
 - Golden Rule (ADB + EOB)
 - Aegon (variation of ADB that mimics EOB)
- VUL chassis
 - AXA (ADB)
 - John Hancock (ADB + EOB)
 - More in works
- WL chassis
 - NY Life (ADB only)

ADB

- Accelerates portion of death benefit when LTC trigger is met
 - E.g., may pay 2% or 4% of face per month
 - Payments reduce future death benefits (like a face decrease)
 - Cash values are reduced proportionately (e.g., if CV's are 30% of face, then a payout of \$2000 of LTC benefits reduces DB's by \$2000 and CV's by \$600)
 - Net LTC pay-out is reduced by a proportionate repayment of policy loans (e.g., if half of the CV is loaned out, then the LTC payment in the example above is reduced by \$300 and outstanding loans are reduced by \$300)

ADB

- Benefit choices
 - Pay after a 90 day elimination period
 - Pay on 2 of 6 ADL or cognitive impairment
 - Policyholder choice of benefits
 - Face divided by 24, 36, 48, etc.
 - Face times 2%, 3%, 4%, etc.
- Benefit structure
 - Expense reimbursement (benefits capped at expenses incurred)
 - Indemnity (formal care required, monthly benefits pre-defined)
 - Disability Model (indemnity without care requirement)
- Charges
 - YRT, per thousand of net amount at risk, except FL or NC, unless you want to use level charges everywhere₁₀

EOB

- If ADB benefits deplete the full face amount, and EOB is attached, EOB monthly benefits may continue at prior benefit levels
- Pay-out period a policyholder choice at issue
- Charges
 - Level
 - Need active life reserves

Inflation options

- Increases the maximum monthly pay-out for LTC by $x\%$ (simple or compound) per year since policy issue, and the remaining lifetime unused LTC benefit
 - May begin during ADB period, but structured as an independent benefit which does not impact life benefits
 - Inflation even more common during EOB benefit period
 - Required for EOB, not ADB
- Charge structure
 - Level charges
 - Need Active life reserve

Life/LTC Product Variations

- Nonforfeiture Benefits
- Return of Premium Options
- Residual death benefits
- Guaranteed minimum death benefits
- No lapse guarantees
- Waiver

Consumer and Company Benefits

- ADB reduces rates
- ADB reduces risks (morbidity, and if YRT charge structure, interest rate and persistency risks)
- EOB extends coverage to address full LTC need, but essentially features a long elimination period that keeps costs and risks down (typically less than 1/3 of total PV of LTC costs)
- Package still less risky than stand-alone LTC
- Cost of LTC benefits still less expensive than stand-alone coverage

Design Considerations, and Interactions Among Benefits

- Acceleration and Life
- Inflation benefits
 - Monthly maximums
 - Lifetime maximums
- Partial withdrawals and Loans
 - LTC Benefits
 - ROP Benefits
- Nonforfeiture

Guarantees

- 1980 CSO vs. 2001 CSO
- Substandard
- ROP
- Traditional No-Lapse Secondary Guarantees
- LTC
- GMB

Taxation - 7702

- CVAT tests
- GPT tests
- Non-QAB's

HIPAA

- 7702(B), defining TQ LTC
 - Claimant must be “chronically ill individual”
 - 2 of 6 ADL’s or cognitive impairment
 - Certification by licensed health care practitioner
 - Expectation that claim will continue beyond 90 days
 - No CV other than ROP at death
 - Per diem limits
 - Reference to other LTC model requirements
 - Inflation offer
 - Nonforfeiture offer (including level premium ADB)
- Privacy requirements

Regulatory/Tax Requirements

- ADB not subject to a series of LTC requirements
 - Suitability and Shopper's guide
 - Loss ratio
 - Inflation Option
 - ADB generally otherwise subject to LTC regulations, including agent licensing and marketing requirements
- ADB may be treated as DB for taxes
- Common view is that EOB benefits subject to all LTC regulatory requirements
 - Favored tax treatment if meeting TQ requirements

HR4 – Life/LTC

- Clarifies that charges for LTC riders to life AV's are treated as distributions, going back to enactment of HIPAA
- As of 1/1/2010, these distributions for tax qualified LTC riders are not taxable, but reduce the basis in the contract
- Pay-outs from TQ designs are tax-free (other than indemnity payments in excess of the greater of HIPAA limits or actual expenses incurred)
- Exchanges to combo plans allowed under 1035 (@1/1/2010)

Life/LTC Underwriting

- Some overlap of life and LTC underwriting
 - ADL and cognitive impairment for LTC
 - Want single flow
 - Underwriting classes should be viewed independently for life and LTC
- Distribution outlets
 - Differing acceptance levels for complex underwriting
 - Teleunderwriting emerging

Life/LTC Claims

- ADB may represent a modest cost to the company, since DB would be payable soon in many cases
 - May be exceptions, especially at younger ages with higher recovery rates
- Indemnity vs. disability vs. expense reimbursement will require differing levels of claims administration
- EOB and Inflation benefits represent additional dollars of benefits demanding more attention
- TQ LTC designs require certification by licensed health care practitioner and annual re-certifications

Pricing Assumptions

- LTC claim costs
 - Experience in combo market more favorable for short term claims
- Mortality
 - Disabled lives
 - Other lives
- Lapses
 - Stand-alone LTC lapses in ultimate durations 1-2%
 - Combo plan lapses could approach these levels in ultimate durations

Illustration/Administration System/Marketing Requirements

- UL Illustrations
 - With riders
 - Current and Guaranteed
 - Illustration of LTC claims?
- Outlines of coverage
- Policy summary

HR4 - Annuity/LTC Combos

- Clarifies that charges for LTC riders to annuities are treated as distributions, at least as of 1/1/2010
- As of 1/1/2010, these distributions for tax qualified LTC riders are not taxable, but reduce the basis in the contract
- Pay-outs from TQ designs are tax-free (other than indemnity payments in excess of the greater of HIPAA limits or actual expenses incurred)
- Exchanges to combo plans allowed under 1035 (@1/1/2010)
- DAC taxes
 - 1.75% for annuities
 - For annuity combos as a result of HR4, beginning after 12/31/2009, treated as LTC, with DAC tax rates of 7.7%

Annuity/LTC Product Variations

- Deferred annuities
 - Design one: Withdrawal of AV without SC during first 2 or 3 years of LTC, with extension of benefits after that
 - Design two: Independent payment of benefits into AV
- Immediate annuities
 - Enhanced pay-outs when LTC trigger met

Consumer and Company Benefits

- Deferred annuity, first design:
 - Waiver of SC modest cost to company
 - Extension of coverage addresses full LTC need, with a long elimination period
 - Package still less risky than stand-alone LTC
 - Cost of LTC benefits still less expensive than stand-alone coverage
 - Pricing synergies between annuity and LTC

Consumer and Company Benefits

- Deferred annuity, second design:
 - No “self insurance” as in first design, but cost of LTC benefits can be kept down through extended waiting period such as the first six or seven policy years
 - The biggest benefit to waiting period is to reduce anti-selection with limited underwriting

Market Positioning

- Lincoln, John Hancock, Guaranty Income, Allianz, Great American, and more
- Several major carriers in development
- Distribution
 - Annuity producers
 - Banks
 - Financial planners

Regulatory/Tax Requirements

- Ancillary riders not uncommon on annuities, some that look much like limited forms of LTC
 - Some are not be filed as health insurance
 - May arguably avoid marketing, licensing, and design requirements of LTC
 - May not have optimal tax positioning
- HR4
 - Favored tax treatment if rider meets TQ requirements
 - Charges not taxable, but reduce basis

Pricing Assumptions

- General assumptions
 - Most assumptions subject to considerations similar to life/LTC pricing
- Lapses
 - Deferred annuities are persistency supported
 - Stand-alone LTC lapses in ultimate durations 1-2%
 - Combo plan lapse could approach these levels in ultimate durations with richer LTC designs

Future Considerations

- Market evolution expected to occur rapidly
- Upgrades and exchanges to add LTC to inforce annuity policyholders

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