

# Combo Products & LTC Update



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## What Is A Combo Product?

- Combines LTCi with Life Insurance, Annuity or Disability Income insurance
- Life/LTC is the most widely accepted for LTC planning purposes
- Essentially high deductible LTCi with the death benefit depleted by amount of LTC benefit received
- Our conversation focuses on life insurance that accelerates the death benefit AND offers Continuation Rider for additional LTC needs

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## Combo Life Product: Typical Design (Numbers Vary by Age, Sex, Health, Insurer)

**\$100,000 single premium without inflation protection gives:**

<b>\$100,000</b> Guaranteed Cash Value	or	<b>\$120,000</b> Death Benefit Income-Tax-free under IRC §101(a)(1)	or
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\$100,000



\$120,000

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**ACCELERATED DEATH BENEFIT**

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

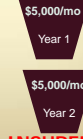

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**EXTENDED**

Combined Potential LTC Benefit of \$360,000

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**ROP LIFE INS CO-INSURED LTC LTC COVERAGE**

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### To Whom Does Life Combo Appeal?

- Generally age 55-70. Females 60%; Males 40%
- \$300,000+ of invested assets (excludes home and qualified retirement assets)
- Have excess cash assets earning low interest rates (CD, life insurance, or annuity)
- Willing to put at least \$50,000 into the product
- Inclined to self-insure their LTC risk
- Maybe rejected stand-alone LTCi due to "use-it-or-lose-it"
- Might otherwise have considered limited pay LTCi

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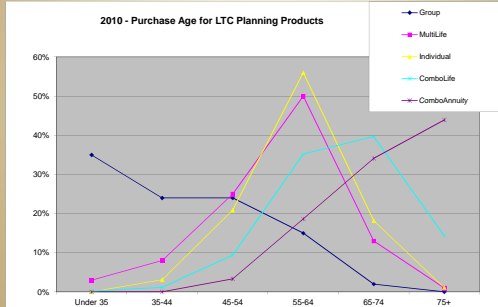
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### Purchase Age for LTC Planning Products:




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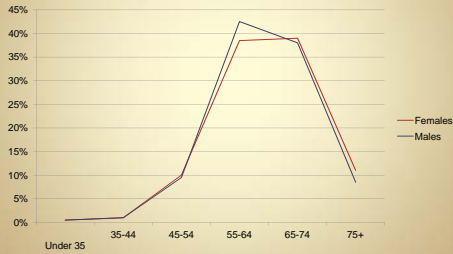
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### Issue Age of LTC Combo products is declining



AALTCI Sourcebook, 2012-2013 Call (770) 579-8881

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### How Much Single Premium?

Factor	Combo Life	Combo Annuities
Single Premium <\$25K	0.8%	5.5%
\$25,001-\$50K	7.5%	23.5%
\$50,001-\$100K	25.5%	42.0%
\$100,001-\$200K	41.0%	23.0%
\$200,001+	25.2%	6.0%
% with benefit increases	4.7%	

AALTCI Sourcebook, 2011 Call (770) 579-8881

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### Wealth, less Health, needed for Combos

- Most Combo sales are single pay
  - Average purchase is \$70,000
  
- Difficult commitment for many
  - Uncertainty of future expenses related to children (college)
  
- Underwriting sometimes easier than traditional LTCi

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### Ways Combos are Used for Planning varies Widely

- LTC Benefit vs. Death Benefit
- Varying ability to leverage LTC benefits
- Catastrophic coverage vs. buffering average needs for care
- Resolve some needs unavailable in traditional LTCi market
  - Single Pay
  - Lifetime unlimited benefit duration

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### Combo AttractivenessLTC

- Avoids "Use it or Lose it"
- Better way to "self-insure" (stop-loss catastrophe insurance)
- Reduces exposure to investment volatility, analogous to using portfolio theory. Helps to assure an estate for children
- Arbitrage opportunity: does well under all scenarios. Moneyguard recently adjusted ROP
- Re-position lazy assets
  - Certificates of Deposit
  - §1035 exchanges from insurance policies

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## Underwriting

- Mostly Accept/Reject decisions with all "Standard" risks.
- Policies often approved in a week
  - Phone interview, MIB, Pharmacy checks
- Genworth similar to traditional LTCi underwriting. Standard and Preferred risks
  - Often gets Medical Records as well as above

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## Types of Combo Life Product

	Current; Lower Quart'd #s	Fully Quart'd Values
Guarantees	Current w/lower amount gtd Lost if loan or withdrawal	Fully guaranteed
Death Benefit	Can be higher early or late or level throughout Residual death benefit with either design	
Surrender value	Acct Val. - surrender charge	Fixed - recently adjusted
	Usually gtd to be >= premium (perhaps not forever)	
Charges/interest	Explicit	Implicit
Elimination Period	90 or 0; 90/0 (home care days may count to facility EP)	
Underwriting	Some use "ticket" approach; Pass/Fail vs. deeper UW	
Examples:	Genworth	MoneyGuard

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## Carriers like the Risk/Reward advantage of Combos vs LTCi

- Less profit sensitivity to variance in incidence of LTC, death rates, and future variance in interest rates/ROI
- Persistency of combos much higher than plain Life or Annuities (LTC has low lapse rates compared to Life and Annuities; 20% of annuities lapse)
- ...and they make money on the Life insurance!

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## 4 Major Carriers

	State Life	Pacific Life	Lincoln Financial	Genworth
Rating: AM Best	A+	A+	A+	A
Rating: Comdex	96	89	89	74
Int Rate (July13)	4%	3.65%	4%	3%

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## Lincoln Financial's Moneyguard Product

- Leading Market Share Combo product
- Large distribution system. Sold primarily in 1s and 2s by Banks and Wirehouses
- Non-cancellable product
- 65% of sales to women – usually single. Avg age=62
- Simplified Underwriting
- 95% of policies sold without inflation protection
- 12-20% of sales are 1035 exchanges
- Recent changes: max Issue age <70 and reduced ROP in early years to avoid “interest rate opportunity”

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## State Life

- Product started about 20 yrs ago
- Patented use of Second-to-Die life insurance differentiates their coverage for married couples
- Offers Lifetime, unlimited duration benefit period
- Extension rider can be single pay, 10-pay or annual
- Roughly 30% growth in sales for 2011 and 2012
- Guaranteed LTC benefits on whole life chassis

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### Pacific Life

- New product for major carrier. Sales began Feb12
- Key personnel from Moneyguard
- Base product very similar to Moneyguard
- Focuses more on LTC benefit and less on DB
- Added Couples discount and also Men priced well
- Inflation emphasized more
- Most competitive over age 60
- Underwriting/Claims outsourced to Unavita

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### Genworth

- Primary seller of traditional LTCi
- Full Underwriting
- Preferred health discount
- Couples discount even if Combo and traditional LTCi both with Genworth
- LTC Provider discounts available
- Limitations on Return of Premium

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### Combo Life Product: Typical Design (Numbers Vary by Age, Sex, Health, Insurer)

**\$100,000 single premium without inflation protection gives:**

**\$100,000**  
Guaranteed  
Cash Value

OR

**\$120,000**  
Death Benefit  
Income-Tax-free  
under IRC  
§101(a)(1)

OR

**\$120,000**  
Accelerated Death  
LTC Benefits  
Income-Tax-free  
under IRC  
§7702 (B)

AND

**\$240,000**  
Extended  
LTC Benefits  
Income-Tax-Free  
under IRC  
§7702 (B)

**Combined Potential LTC Benefit of \$360,000**

**\$100,000**

**\$120,000**

**\$5,000/mo**  
Year 1

**\$5,000/mo**  
Year 3

**\$5,000/mo**  
Year 4

**\$5,000/mo**  
Year 2

**\$5,000/mo**  
Year 5

**\$5,000/mo**  
Year 6

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**LTC Benefits and Death Benefit vary by:**

- Age
- Gender
- Marital Status
- Genworth includes Preferred risk status
- Inflation option

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**"Specified Amount"**

- Drives all other benefits
- =(Minimum) Death Benefit
  - if no other benefits have been paid
  - in many contracts, insurer can reduce it if environment changes
- Maximum Monthly LTC Benefit. Sources:
  1. Accelerated Death Benefit: draws from the death benefit
  2. Extension of Benefits Rider: insurer pays out-of-its-pocket

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**LTC Planning Perspective:  
Future Monthly Benefit is Key**

- Evaluate the difference between future monthly cost of care and future monthly benefit.
  - For younger clients (40s – 50s), this difference is often significant
- Care in LTC facilities inflates faster than the CPI
- Tradeoff between monthly benefit and “Total Benefit” or “# Yrs of Coverage”
- **Important to understand Client Needs**

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### Ways of Determining Maximum Monthly LTC Benefits

Based on a specified amount of \$168,000:

$\$168,000 / 24 \text{ months} = \$7,000/\text{month}$	$(24 \times \$7K = \$168K)$
$\$168,000 / 36 \text{ months} = \$4,666.67/\text{month}$	$(36 \times \$4.67K = \$168K)$
$\$168,000 / 48 \text{ months} = \$3,500/\text{month}$	$(48 \times \$3.5K = \$168K)$

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$\$168,000 / 36 \text{ months} = \$4,666.67/\text{month}$	$(36 \times \$4.67K = \$168K)$
$\$168,000 / 48 \text{ months} = \$3,500/\text{month}$	$(48 \times \$3.5K = \$168K)$

$\$168,000 \times 4\% = \$6,720/\text{month for 25 months}$	$(4\% \times 25 = 100\%)$
$\$168,000 \times 3\% = \$5,040/\text{month for 33.3 months}$	$(3\% \times 33.3 = 100\%)$
$\$168,000 \times 2\% = \$3,360/\text{month for 50 months}$	$(2\% \times 50 = 100\%)$
$\$168,000 \times 1\% = \$1,680/\text{month for 100 months}$	$(1\% \times 100 = 100\%)$

Principle: spreading over longer period emphasizes death benefit over LTCI benefit. Which is more important to your client?

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### Ways of Determining Maximum Monthly LTC Benefits

Based on a specified amount of \$168,000

Percentage	Duration (months)	Monthly Benefit
4%	25	~\$6,720
	24	~\$6,720
	36	~\$6,720
2%	50	~\$3,360
	24	~\$3,360
	36	~\$3,360
1%	100	~\$1,680
	24	~\$1,680
	36	~\$1,680

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### Inflation of Monthly Benefit

- Inflation options vary: 3-5% compound or simple.
- Specified amount may limit inflation options depending on age and type of inflation.
- Inflation option may be variable for the accelerated benefit and the continuation rider

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### Continuation Rider

- Usually built into the initial premium
- Some carriers may only offer it to be paid as a single premium while others may offer it to be paid as a separate premium that can be paid like traditional LTCi

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### Combo Joint Life: 67 + 68 Yr olds (Numbers Vary by Age, Sex, Health)

**\$80,000 single premium** For a Total Annual Premium of ~\$4500/yr

**payment provides:**

Cash Surrender Value from 78K to 115K

OR

\$138,000 Second to Die Death Benefit

OR

\$138,000 Accelerated Death / LTC Benefits

AND THEN

LIFETIME UNLIMITED BENEFITS FOR BOTH SPOUSES!

\$4155/mo WITH 5% INFLATION PROTECTION

\$78K+

\$138,000

\$4,155/mo Year 1

\$4,155/mo Year 2

\$4,155/mo Year 3

ROP + LIFE INS + CO-INSURED LTC + CATASTROPHIC LTC COVERAGE

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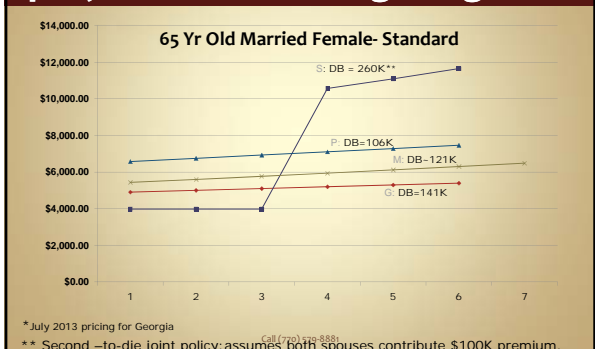
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### Single Premium: Monthly Benefits proj with LTC starting at age 82\*




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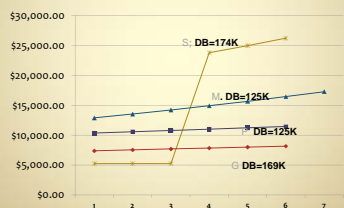
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### Different Carriers: Monthly LTC with \$100K Single Premium\*

- 55 Yr Old Female, Single, Standard Risk. Benefits starting at age 82




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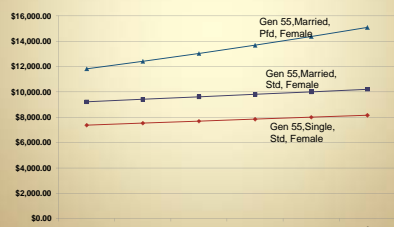
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### Genworth LTC Benefits with \$100K Single Premium\*

- Monthly benefits starting at age 82 for 6 years
- Pfd, Married females get almost 2X's the benefits




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## Combos vs. Traditional LTCi

- Combos circumvent the “use it or lose it” issue
  - Increased prices for LTCi (caused mainly by low interest rates & low lapse rates)
  - Pricing is much more stable for new sales
    - Possibly favorable future deviations
  - Although stand-alone LTCi is very good, combo is viewed as having more stable pricing
- Conclusion: Combo products compare more favorably to stand-alone LTCi than in the past.

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## Stand-Alone LTCi Advantages

- **Annual premium instead of single premium, typically**
- **Better benefits such as:**
  - Independent life insurance benefit not forfeited
  - 5% compound benefit increases
  - Shared care
  - Informal caregiving frequently
- **Generally better spousal discounts**
- **Gov't benefits: tax-deductible premium; Partnership**
- **More likely to use stand-alone LTCi, because not your \$**
- **Some LTCi policies still use unisex pricing which is advantageous for single women. Industry transition underway.**

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## Combo Tax Information

- Death benefit is generally income tax-free to the beneficiary under § 101(a)(1)
- Long term care benefit payments are not taxable income under §7702(B)
- Monthly LTCi deductions
  - reduce cost basis.
  - are NOT tax-deductible (unlike stand-alone LTCi premiums).

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**Pension Protection Act  
§ 1035 (Tax-Free) Exchanges**

From	To
Life Insurance or Combo Life Insurance	Life Insurance, Combo Life Insurance or Annuities or LTCi
Annuities or Combo Annuities	Annuities, Combo Annuities, or LTCi
LTCi	LTCi

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**§1035 Requirements**

- Money must come from a non-qualified vehicle
- Must transfer directly between insurers
- The old and new contracts must have exactly the same owners
- From life insurance to LTCi: the insureds must be the same

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**LTCi Update**

- Gender based pricing for individual LTCi
- Employer plans require gender neutrality
- Underwriting changes

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### LTCi Update: Separate Rates for Men/Women

- Genworth: 32 states since April
- Hancock: 41 states since April
- In September, Transamerica and Mutual of Omaha will be in 36 states each
- Women use 2X's as much LTC and new rates reflect these changes.

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### How much more do Women Pay after the rate adjustment

Purchase Age	Genworth	Hancock	Transamerica
40	46%	57%	52%
50	50%	55%	52%
60	46%	53%	52%

Comparing single male to single female, most common risk class, 3 yrs, 5% compound inflation, EP=90. Typical state. May vary slightly by state.

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### LTC Update: Underwriting Changes

- Bloodwork required by some carrier(s)
- Cholesterol now an issue

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## Thank You

I appreciate the opportunity  
to share my expertise and  
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tom@aplanningsolution.com  
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