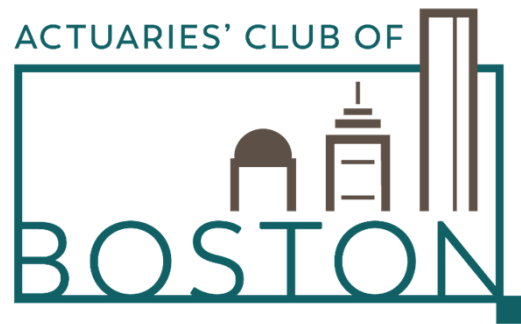


Hybrid Life and  
Long-Term Care Market  
Issues and Opportunities

November 11, 2020



The webcast will  
begin  
momentarily...

Please hold questions until the end of the  
presentation

Questions can be submitted by unmuting your line at the end  
of the presentation



# The Hybrid Life and Long-Term Care Market

## Issues and Opportunities

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Milliman*

November 11, 2020, 11:00 AM

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates. Milliman and Lincoln are not affiliated.

# The 11<sup>th</sup> hour of the 11<sup>th</sup> day of the 11<sup>th</sup> month

## Armistice Day / Remembrance Day / Veterans Day

**Armistice Day** is commemorated every year on 11 November to mark the armistice signed between the Allies of World War I and Germany at Compiègne, France at 5:45 am,<sup>[1]</sup> for the cessation of hostilities on the Western Front of World War I, which took effect at eleven o'clock in the morning—the "eleventh hour of the eleventh day of the eleventh month" of 1918. (Wikipedia)

So to honor our Veterans and remember this day, we will use just 11 slides for our presentation.



# 1. History of Hybrid

## 1. What's a Hybrid?

Hybrid Products - Linked Benefits – Combination Products – Living Benefit Riders  
LTC Riders, LTC Extension and Chronic Illness Riders (with and without a premium)

## 2. 32 Years of Hybrid Life/LTC products

Lincoln and One America – 2006 was the turning point

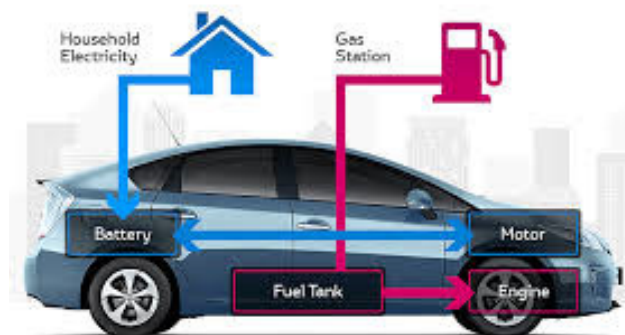
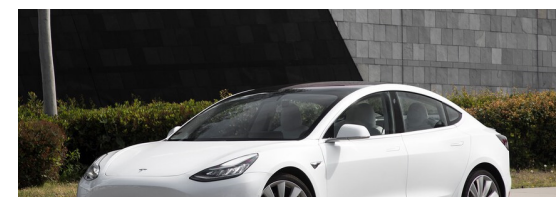
## 3. Sales numbers

In 2019, combination products generated \$4.8 billion in premium, with 461,000 policies sold.  
2/3rds Chronic Illness riders, 85% with no additional premium

## 4. What is driving recent success?

## 5. Who is selling/distributing?

## 6. What is the value proposition for consumers?



## 2. How it's Made / How it's Sold

1. Riders on IUL, GUL, WL, Term, VUL
2. LTC Focused Riders
3. Chronic Illness Riders
4. NAIC Model Regulations apply but are not specific
5. Benefit Eligibility – 2/6 ADLs or SCI
6. A “Coupling” of Risks

The 6 Activities of Daily Living (ADLs) are:

- Bathing
- Contenance
- Dressing
- Eating
- Toileting
- Transferring

Long-term care benefits  
if they need care



Income tax-free reimbursements  
for qualified long-term care expenses<sup>1</sup>

A death benefit for their  
heirs if they don't



An income tax-free death benefit<sup>2</sup>  
The death benefit is reduced by loans,  
withdrawals, and benefits paid.

Liquidity - return of  
premium options



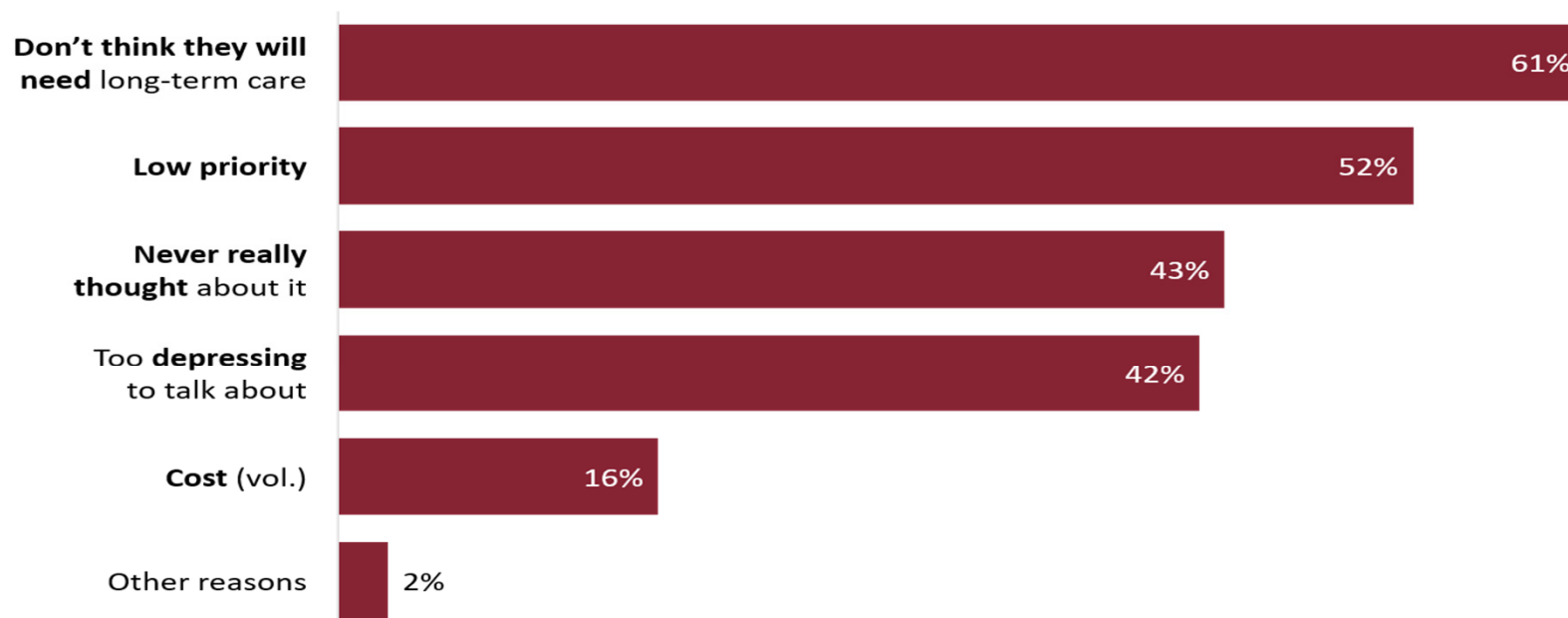
OR

OR

### 3. Hybrid, the Market Demand

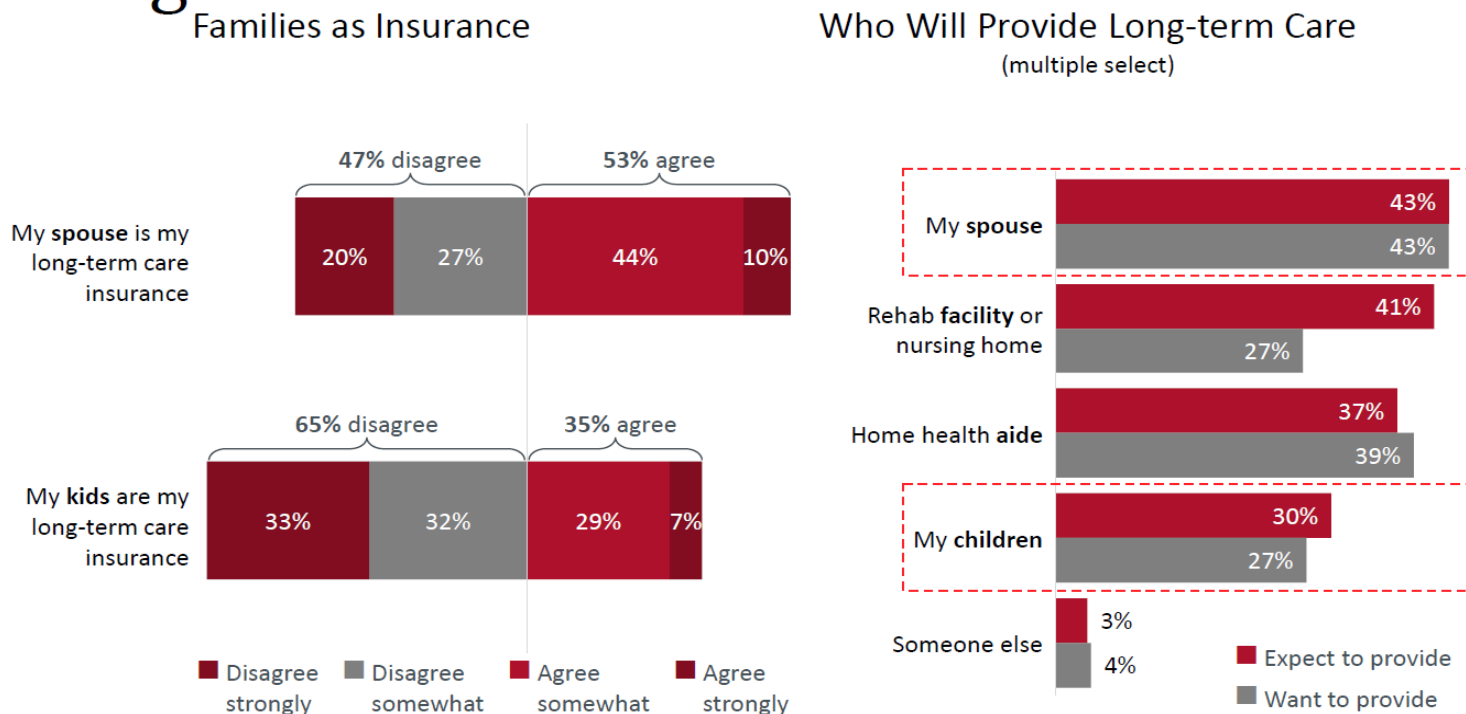
The biggest reason for client reluctance is that clients don't think they will need long-term care.

Reasons Clients Do Not Want to Discuss Long-Term Care  
(multiple select)



### 3. Hybrid, the Market Demand

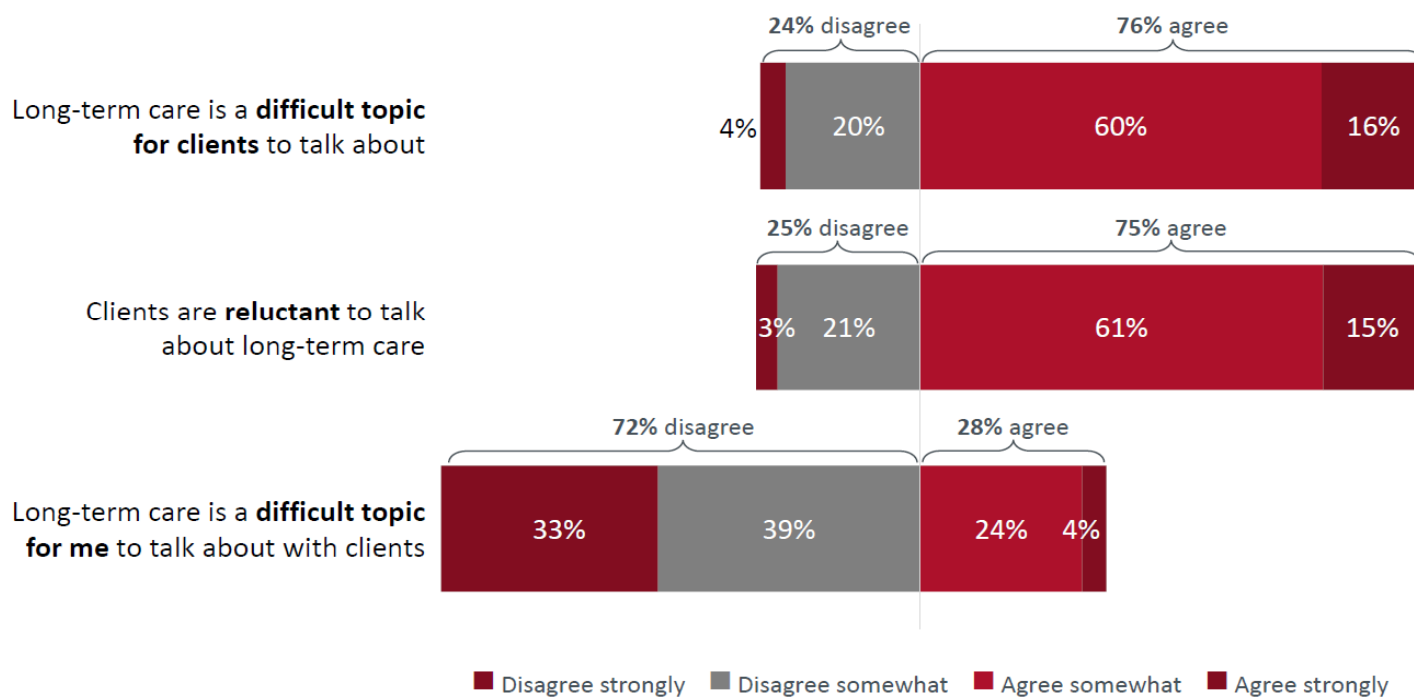
Some want and expect their children and spouses to provide long-term care if needed.



Q43. How much do you agree or disagree with each of the following statements: a. My kids are my long-term care insurance (707n); b. My spouse is my long-term care insurance (693n)? Q18. If you need long-term care who will mostly provide this care: My spouse; My children; A home health aide; A rehabilitation facility or nursing home; Someone else(1,012n)? Q19. Who would you want to provide this care? (1,012n)

### 3. Hybrid, the Market Demand

Advisors agree that long-term care can be difficult for clients to discuss.



How much do you agree or disagree with each of the following statements? Q33a. Long-term care is a difficult topic for clients to talk about; b. Long-term care is a difficult topic for me to talk about with clients; c. Clients are reluctant to talk about long-term care. (500n)



## 4. Hurdles – PBR, LDTI, interest rates

### Interest rates

- Pre-funding large LTC claims is boosted by higher interest rates.
- Low interest rates impact valuation discount rates, reserve levels, and rates to charge
- Cash flow testing for

### Principles-based reserving

- Margins (and direction) for adverse experience
- Formal VM guidance for hybrid products is not clear
- Morbidity assumption is not prescribed
- Different treatment of acceleration and extension riders

### Long-duration targeted improvements

- Annual updating of most assumptions
- Interest rate movements will cause fluctuation
- Reporting requirements for LTC-like products require consideration
- DLR is already on a best-estimate basis

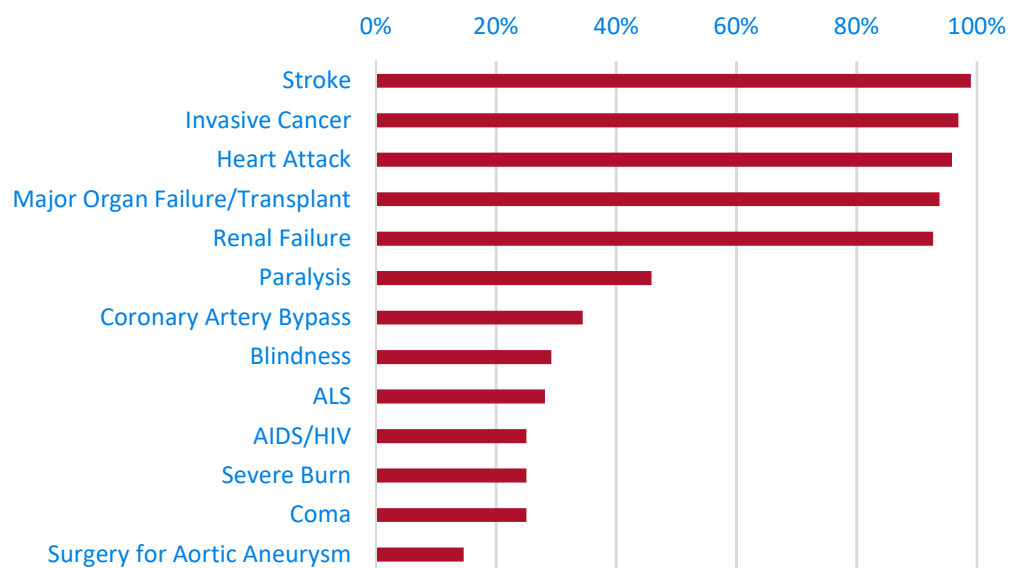
# 5. Have other riders?

## Chronic illness riders

- **Accelerate life insurance benefits for LTC-like needs**
- **Similar benefit triggers:**
  - 2 / 6 ADL
  - Severe cognitive impairment
  - Plan of care from a licensed health care practitioner
- **May be sold by life insurance agents**
- **May not be marketed as ‘Long Term Care’**
- **How customers pay:**
  - Extra charges (premium or COI)
  - Discount the death benefit (actuarial present value)
  - Lien
- **For IIPRC / FL / CA, benefits must be incidental to the base policy (10% value or less)**

## Critical illness riders

- **Events happen earlier in life than chronic illness**
  - Heart attacks, cancer
- **Harder for benefits to be incidental, the earlier they occur**
- **Payouts smaller than 100% allowed**
  - Improve ability to pass incidental value test



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

## 6. How about a break? Questions & Answers

# 7. Handling Morbidity Assumptions

## 1. Assumption Resources

## 2. Similarities/Differences Between Trad LTC and Hybrid:

Benefits, Underwriting, Policyholder Intent, the Purchaser, the Distribution Approach, etc.

## 3. A Basic Approach

## 4. The Proxy Elimination Period Approach

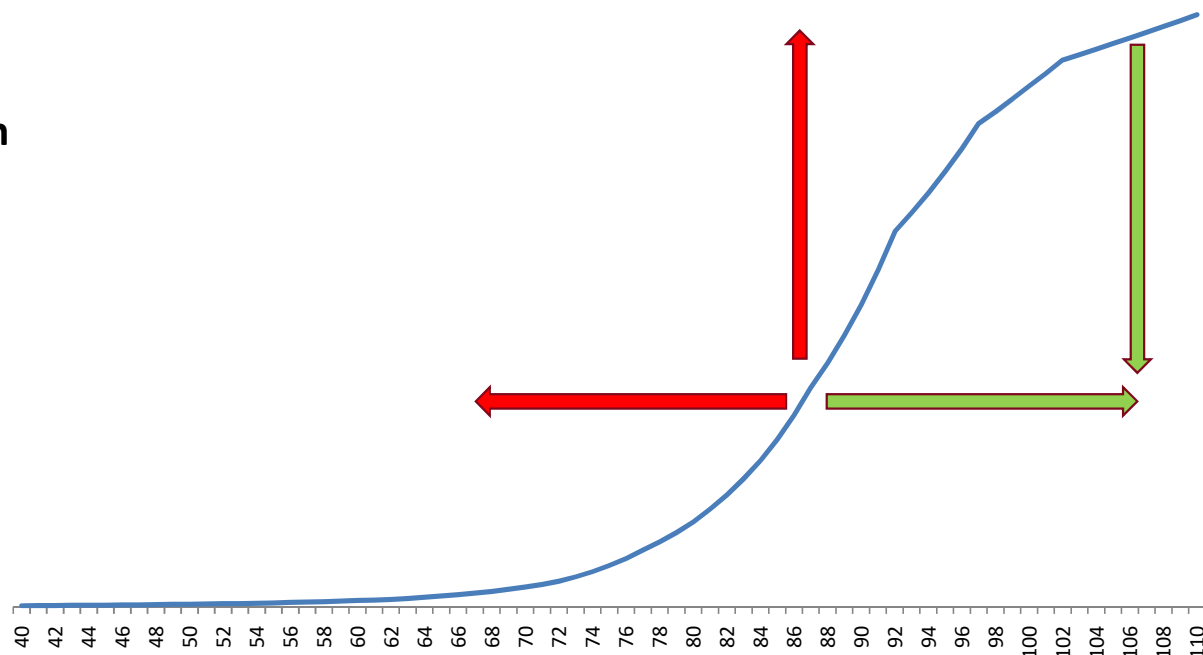
## 5. Considerations:

What is a Mortality PAD in a hybrid product?

What is the impact of lapse?

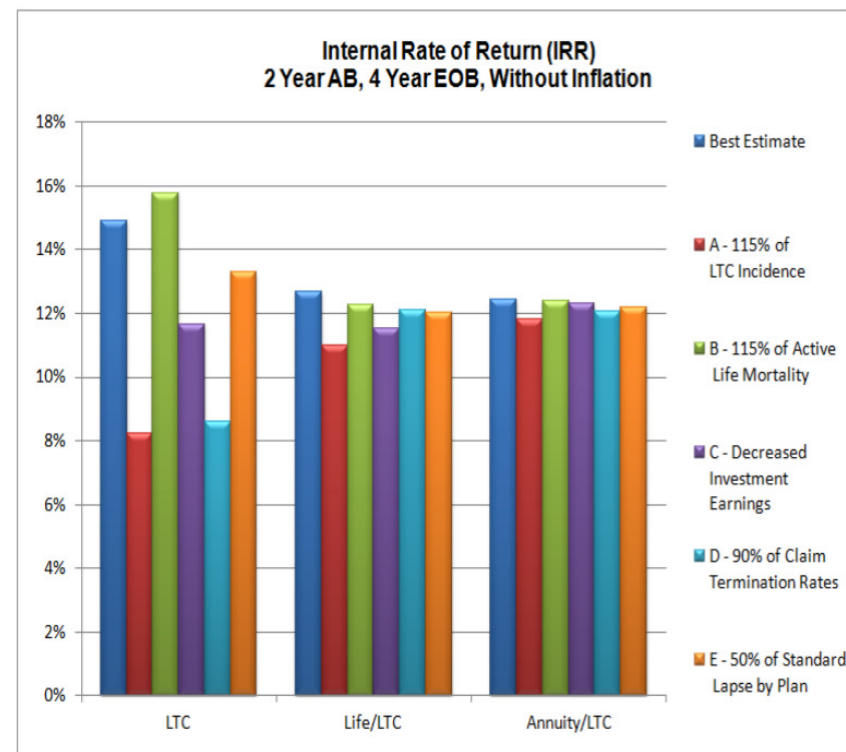
Levels of PAD

Sources of Uncertainty



## 8. Hedging volatility, naturally

- Risk offsets
- LTC needs AND mortality increase with age exponentially
- Higher-than-expected ...
  - Mortality: Death benefits (↑), LTC benefits (↓)
  - LTC incidence: LTC benefits (↑), Death benefits (↓)
  - Persistency: Surrender benefits (↑), LTC benefits (↓)
- Future volatility is smoothed vs. base life insurance contract (or standalone LTCI contract)



Source: Quantification of the natural hedge characteristics of combination life or annuity products linked to long-term care insurance

## 9. Harnessing the Opportunities

1. Life + LTC
2. Annuity + LTC
3. Chronic illness riders
4. Short-term care
5. Inforce management
6. Value-added benefits
7. Wellness and policyholder health



## 10. Hope for the Hybrid Future

- Hybrids have brought Financial Advisors to the LTC solutions table. Awareness is increasing.
- The LIMRA survey had 28 carriers participating in the 2019 and 31 in the mid year 2020 survey.
- Significant interest in preventive care. Hybrids are uniquely able to provide.
- How about other base products for the LTC Extension products?
- Senator Toomey: use of retirement plan funds.
- How about hybrids for the untapped middle mass population?

11. Have at it, more Q&A.



Thank you