life annuity specialist

# Why Hybrid Products Are Taking Over the Long-Term-Care Insurance Market

By Cyril Tuohy August 13, 2018

A tectonic shift is underway in the long-term-care insurance market.

As insurers struggle with huge, mounting charges from legacy standalone business, new products are popping up everywhere that offer similar benefits.

On Aug. 2, a day after Prudential said it would take a $1.5 billion expense related to its old policies, a Mutual of Omaha unit announced it would offer a “long-term care rider” for new indexed universal life policies.

United of Omaha’s rider allows policyholders to draw part of the death benefit early for long-term-care expenses for a nursing home or assisted-living facility, for example. They can choose a coverage amount and a monthly payout of 1%, 2% or 4% of the maximum benefit, the company said in a media release.

So-called hybrid products, where long-term-care benefits are tied to life insurance or annuities, have seen robust growth. The market may expand even more aggressively, after second-quarter earnings revealed further difficulties at legacy providers of the traditional insurance. Unum Group fast-tracked its actuarial review and may boost long-term-care reserves by $750 million, after earlier increases in 2014 and 2011.

Analysts at Moody's Investors Service say incurred claims costs are hitting "expected acceleration" as people in their 70s and 80s go on claim for policies issued in the 1990s, and companies are reacting by setting aside even more in reserve. They're also scrambling to raise premiums. Genworth Financial said it raised costs an average 58% this year on some long-term-care policies, according to InvestmentNews.

Many policies were sold at a time when U.S. Treasury yields were higher and insurers could afford generous benefits. But the products had thin histories against which actuaries could measure how often people filed claims, and for how long. Too many companies underpriced coverage, which became clear many years later and set off a torrent of rate hikes and reserve increases. Managing the blocks profitably was even more difficult after interest rates collapsed in the wake of the financial crisis.

Distress in the traditional market has created an opening for "hybrid" or "combination" life products, even if the benefits aren't as generous as those of traditional long-term care policies.

**New Hybrid Product Category**

Products that include long-term-care benefits rose 18% to $4.1 billion last year, or 25% of new U.S. life insurance premiums, LIMRA data show. That's a 10% market share increase in two years. Sales of annuities featuring similar benefits have increased an average of 23% a year since 2011, according to LIMRA.

The number of life insurance policies and annuity contracts with accelerated long-term care benefits has nearly doubled since 2011 to about 450,000, according to A.M. Best.

Hybrids behave in different ways.

Some, like United of Omaha's policy, have an accelerated death benefit rider that can be used for long-term care or other needs. The rider pulls money out of the life insurance policy at the expense of the death benefit. Some annuities permit such withdrawals, though retirement income is then lowered.

Others are universal or whole life insurance policies where the premium funds both the death benefit and a long-term care benefit pool that pays a multiple of the initial premium for expenses like nursing home costs, which often exceed $50,000 a year.

These "linked-benefit products," which traditionally were paid through a single premium, now allow for payments over three, five, seven, 20 years, or even a lifetime. **Lincoln**'s MoneyGuard, Nationwide's Care Matters, Pacific Life's PremierCare and Securian's SecureCare are examples of linked-benefit products.

Some of the hybrid products aren't so much new as a twist on an old theme. Terminal illness riders have been around for 20 years. Dozens of these benefit riders paid for by annual or monthly premiums are also available for chronic illness, critical illness and hospital expenses.

An argument against the products is that they don't cover long-term care, but simply offer a drawdown on the death benefit that can be used for those expenses.

Still, the hybrids appeal to consumers for their affordability and flexibility: even if a buyer never uses the long-term-care option on a life insurance policy, there's still a death benefit to pass on.

"That's why these types of policies have become popular – they offer benefits regardless of what happens," said Bob Vandy, president at Advisors Insurance Brokers.

**Hybrids Appeal to Insurers**

Insurers have their own reasons for being attracted to long-term-care combination products, as they seek to exit a volatile legacy business with long-tailed risk, amid low portfolio yields.

Unlike stand-alone long-term-care policies, hybrids require actuaries to price for fewer assumptions, industry analysts say. They mainly have to consider higher mortality and don't have to be as concerned with more precise measures from claims frequency and policy lapse rates, according to A.M. Best analysts.

Take Lincoln's MoneyGuard. Capped or limited benefits and a return of premium mean the product has a different risk profile and is better at handling adverse experience compared with traditional long-term-care policies, said Lincoln CEO **Dennis Glass**.

"MoneyGuard was also priced in an environment when the errors of earlier LTC providers were obvious and industry experience was much more reliable, and our assumptions reflect this," he told analysts in a conference call.

The relatively new class of hybrids are priced more accurately than traditional long-term-care policies, said Jesse Slome, executive director of the American Association for Long-Term Care Insurance.

Plan designs offer shorter benefit periods, smaller daily benefit amounts, higher deductibles and more modest inflation adjustments, he said. More restrictive policy designs are easier for insurers to price and more affordable for consumers.

"What long-term care insurance consumers are buying today is a reflection of price/premium points they are comfortable with, and policy designs carriers are comfortable with," Vandy said.

Figuring out how to create a viable long-term-care insurance market is no small thing. High demand for the products appears likely to stretch well into the future. An estimated 82 million Americans will be retired by 2040, and more than half of people 65 and older are expected to need some form of long-term care during their lifetime.



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