



2024 LIFE
INSURANCE
& ANNUITY
CONFERENCE

**Powering
Growth**

Meeting Industry Demand: Long-Term Care Product Innovation





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Nationwide

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The underlying investment options to a variable annuity or life insurance product are not publicly traded mutual funds and are not available directly for purchase by the general public. They are only available through variable annuity/variable life insurance policies issued by life insurance companies.

As your clients' personal situations change (i.e., marriage, birth of a child or job promotion), so will their life insurance needs. Care should be taken to ensure these strategies and products are suitable for long-term life insurance needs. You should weigh your clients' objectives, time horizon and risk tolerance as well as any associated costs before investing. Also, be aware that market volatility can lead to the possibility of the need for additional premium in the policy. Variable life insurance has fees and charges associated with it that include costs of insurance that vary with such characteristics of the insured as gender, health and age, underlying fund charges and expenses, and additional charges for riders that customize a policy to fit your clients' individual needs.

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Agenda

- **LTC Industry**
 - LTC products today – hits and misses
 - Sorting out reasons for lack-luster sales of LTC products
 - Trying to make LTC coverage more affordable to the middle market and underserved communities
- **LTC State Mandates and Effects on the LTC industry**
 - Updates on WA Cares Fund, California, Minnesota, New York
 - Overcoming disincentives to buy private LTC in states with a program
 - Developing products for public/private partnership with states
- **Media – Friend or Foe?**

Traditional LTC – What Has Improved?

Lessons in pricing and underwriting have been learned – (helping all product solutions!!)

- Gender based pricing
- Better focus on morbidity underwriting
- More conservative & better priced ROP options
- Better grasp of lapse rates
- Current pricing experience now in a long-term low interest rate environment
- RESULT – current policies much less likely to see future premium increases!
- **But is this the product most consumers want?**

What Has Been Accomplished – Expanding Options

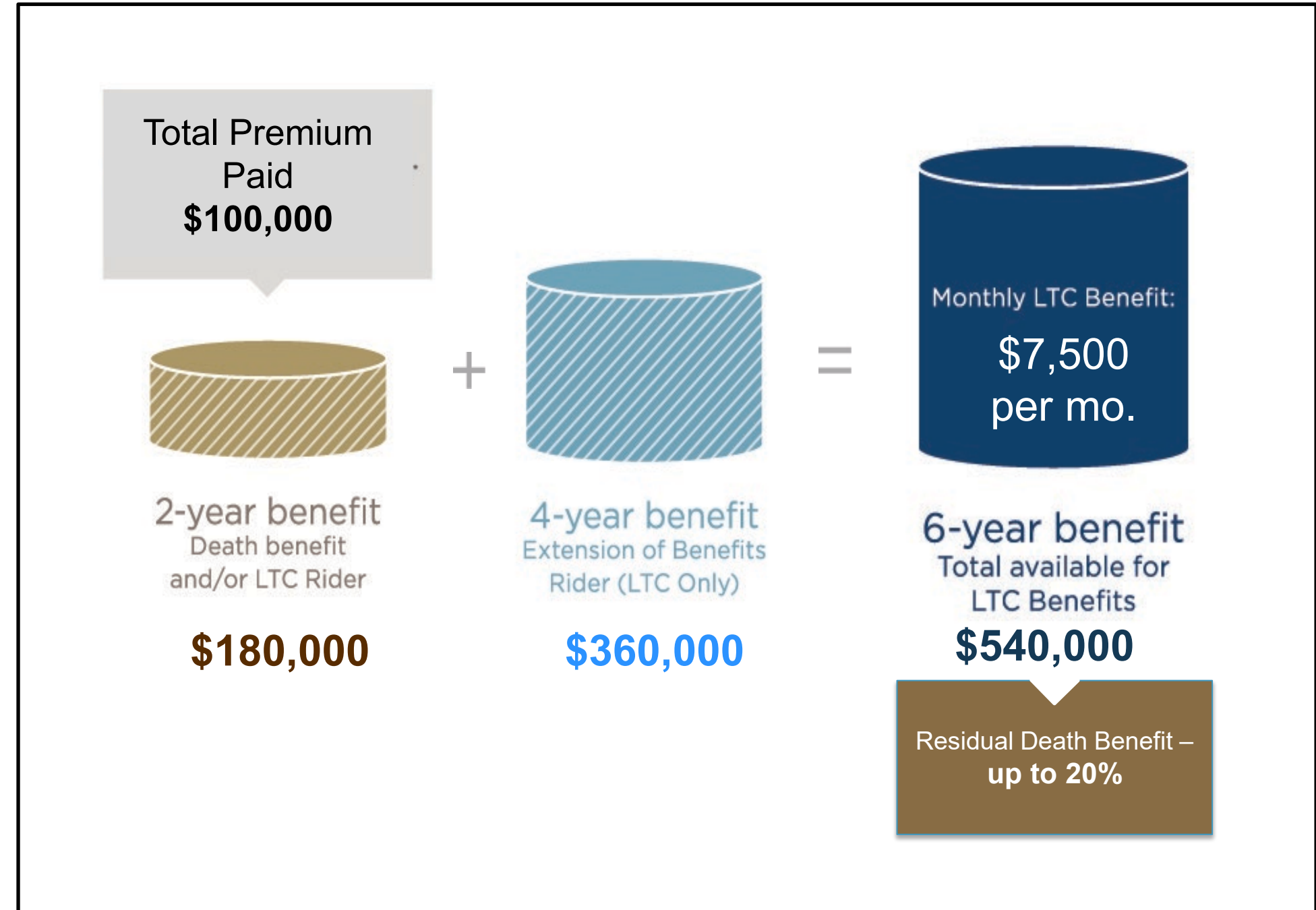
Linked Benefit (hybrid) policies on a life insurance model

Best of Both Worlds

- Protects premium
- Inflation options, choice of benefit periods
- Guaranteed premiums and benefits
- Simplified underwriting (no APS, no fluids)

More affordable today

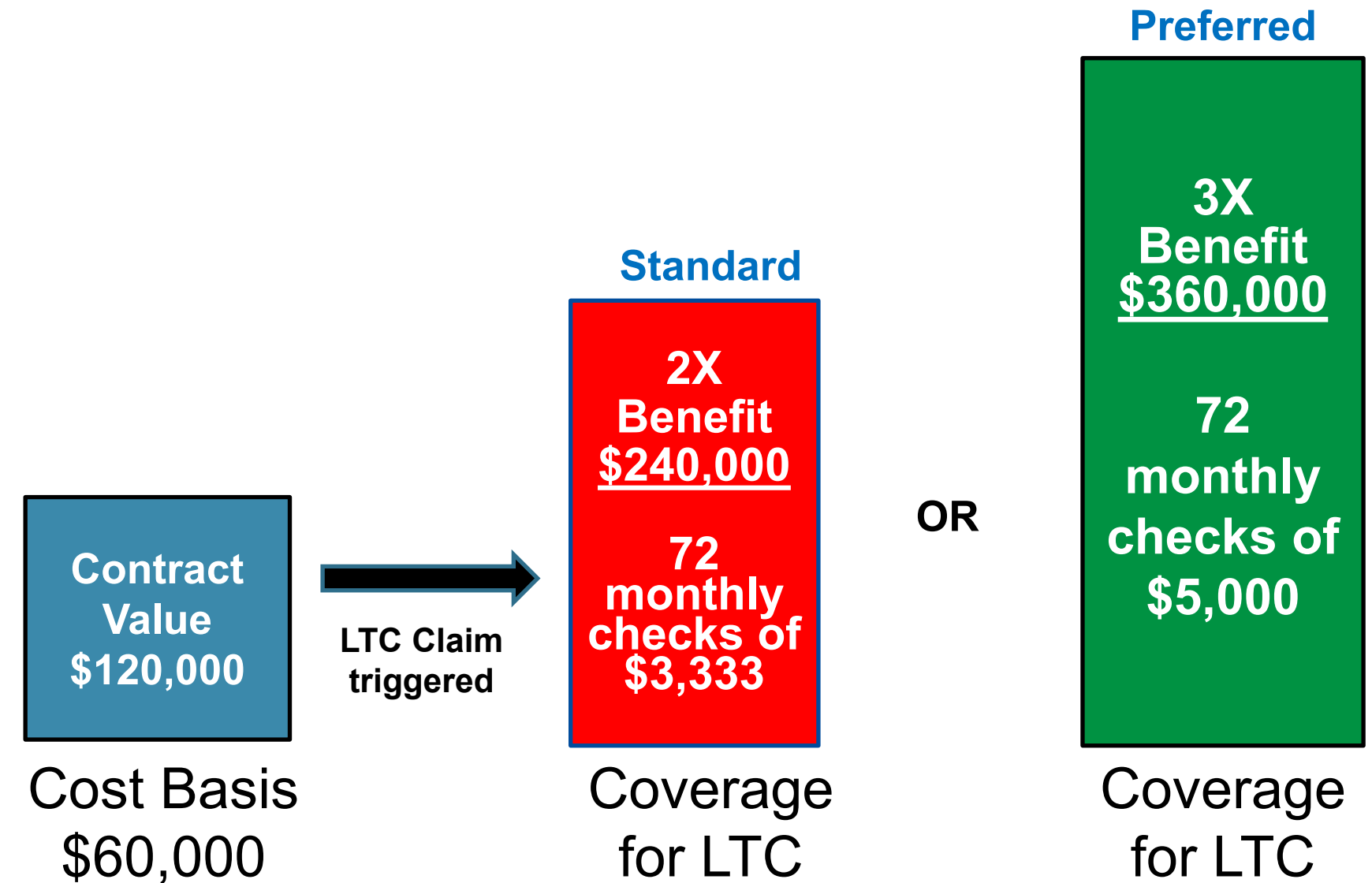
- Premiums from single pay to multiple options including **pay to age 100**
- **Lower entry points**
- **Joint-life policies with shared benefit pools available with low entry points**



What Has Been Accomplished – Expanding Options

- **Linked Benefit policies on annuities**

- Protects premium –
 - death benefit taxable per annuity rules (gain is taxed)
- Guaranteed premiums and benefits
- Simplified LTC underwriting
- **No life** underwriting
- 1035 exchanges with very large gains in an unneeded non-qualified annuities
- Some designs may provide more leverage for healthy clients over age 70+ – depending on company/pricing
- Available as a joint policy
- Single premium only



The basic concept of this hypothetical example is just one type but is common.

What Has Been Accomplished – Dual Purpose Solutions

LTC Riders on life insurance (and underwritten & charged for Chronic Illness Riders)

- Life insurance needs now - LTC needs later
- Guaranteed premiums available - wide choice of premium payment schedules
- Rider is charged for – provides day one knowledge of available monthly benefits
- **Pays in full, live (LTC) or die (death benefit)**

\$400,000 policy/\$400,000 LTC Rider – claim any year in the policy

Policy Year	LTC Claim Year	Death Benefit/LTC Beginning of Yr.	LTC Monthly Benefit	Annual LTC Payout	Total LTC Benefit Paid	Remaining Death Benefit	Cumulative Total Paid
1	n/a	\$400,000	n/a	n/a	n/a	n/a	n/a
22	1	\$400,000	\$8,000	\$96,000	\$96,000	\$304,000	\$400,000
23	2	\$304,000	\$8,000	\$96,000	\$192,000	\$208,000	\$400,000
24	3	\$208,000	\$8,000	\$96,000	\$288,000	\$112,000	\$400,000
25	4	\$112,000	\$8,000	\$96,000	\$384,000	\$16,000	\$400,000
26	5	\$16,000	\$8,000	\$96,000	\$400,000	\$0	\$400,000

Note- only LTC riders are required to have consumer protections



The Elephant in the Room

Discounted Chronic Illness Riders – still “mis-sold” & misunderstood

- Feature included No up-front charge. But NOT free.
 - You pay for it when you claim it
- Has become table stakes with carriers
WHY?
 - No selling involved
 - No additional underwriting
 - subject to the base policy rating
- **Not a planning tool – value not known until time of claim**
- Upon acceleration – a discount formula is applied with several factors
- The younger you are at claim time – the more you lose.
- **Discounted amounts are forfeited.** Unless quite old, better off paying care out of pocket – let DB pay in full!!
- **Best use is with term insurance**

Discounted Chronic Illness Riders – How They Really Work!

- A 70-year-old female with a \$500K policy
- Goes on a 3-year claim
- Accelerate \$100K a year for 3 years for CI benefits for a total of \$300,000.

Age at Election	Death Benefit Accelerated	C.I Benefit Amount Received by Male	Death Benefit Amount Male Forfeited	C.I Benefit amount Received by Female	Death Benefit Amount Female Forfeited
70	\$100,000	\$65,266	\$34,734	\$56,665	\$43,335
75	\$100,000	\$71,868	\$28,132	\$63,651	\$36,349
80	\$100,000	\$78,755	\$21,245	\$71,515	\$28,485
85	\$100,000	\$84,562	\$15,438	\$79,147	\$20,853

* Insured must be in general range of age 100 before full benefits would likely be paid. Numbers from company issuing this type product. Assumptions are a \$500,000 policy with \$50,000 of cash value, 7% discount interest rate at election . Election is 20% of death benefit \$100,000.(maximum election 24%)

- At the end of 3 years, she passes away
 - There is \$200,000 of death benefit left
- The total \$300,000 acceleration only paid out \$174,000* in Chronic Illness benefits
- \$126,000 in death benefit was forfeited
- This \$500,000 policy paid a total of \$374,000
- **What do you say to the beneficiaries?**



*Numbers were rounded for simplicity

As an Industry.....

**Do we have a PRODUCT problem,
or a PLANNING problem?**



LOGO

Why Isn't LTC coverage Being Sold or Purchased?

1. Client belief that LTC coverage is:
 - too expensive
 - fear of increasing premium
 - doesn't cover much (media bias)
2. Advisor or client waits until near retirement to discuss
3. No charge chronic illness riders being mis-sold or settled for
4. Advisor waits for client to approach them
5. More IARs and less LTC insurance agents than in the past
6. Advisor/CPA/Attorney/Client believes they can "self-fund"

1. More Affordable, Guaranteed, Offers Cash Benefit (covers anything)

Joint- life linked benefit policy with shared benefit pool – 96 shared payments

Initial benefit \$2000 mo. with 3% compound inflation, cash indemnity

- | | | |
|--|--|--|
| <ul style="list-style-type: none">• Male 50, Female 48• Age 85 benefit \$5628 ea.
(total \$600,526) (cash indem.)• Premium - \$230 monthly
life pay – guaranteed
(full waiver of premium when on claim)• DB \$72K if not used (tax free to bene) | <ul style="list-style-type: none">• Male 57, Female 55• Age 85 benefit \$4576 ea.
(total \$488,283) (cash indem.)• Premium - \$296 monthly
life pay - guaranteed
(full waiver of premium when on claim)• DB \$72K if not used (tax free to bene) | <ul style="list-style-type: none">• Male 62, Female 60• Age 85 benefit \$3947 ea.
(total \$421,206) (cash indem.)• Premium - \$367 monthly
life pay – guaranteed
(full waiver of premium when on claim)• DB \$72K if not used (tax free to bene) |
|--|--|--|

Entry levels as low as \$1500 a month benefit



LOGO

2. Delayed Approach - By Advisor or Client - Until Near Retirement

Joint life linked benefit policy with shared benefit pool –

96 shared payments - Initial benefit \$2000 mo. with 3% compound inflation

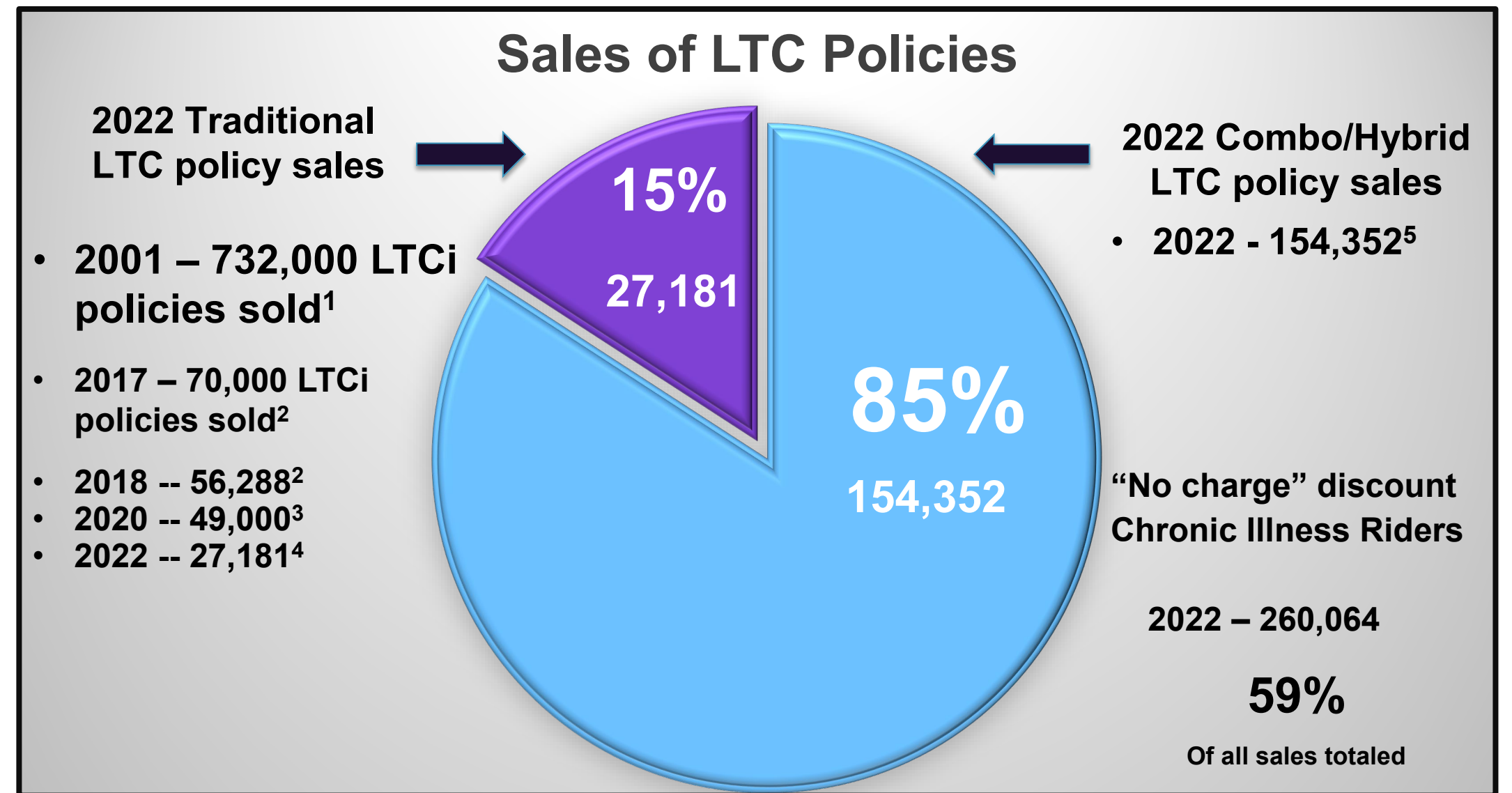
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- Age 85 benefit **\$3947**
(total **\$421,206**)
- Premium - **\$367 mo.** life pay
(with full waiver of premium when on claim)
- **DB \$72K** if not used

- **Waiting 12 more years to purchase results in:**
 - **60% higher premium**
 - **45% lower benefits**
- **Effects of Age/Waiting**
 - **Increases the premium**
 - **Shortens time to inflate**
 - **Increases risk of DECLINE**

3. Discounted Chronic Illness Riders the Predominant Solution

- 96% decline in traditional LTC sales over the last 2 decades
- What HAPPENED?
- LTC Riders on life insurance and linked benefit policies took off, BUT
- “Discounted” chronic illness riders now account for 59% of placements
 - Easy way out for advisors?
 - Does advisor understand them?
 - Has the client been told what they will really get (or not get) at claim time?



¹AHIP Study 2015 (historical data)- Claude Thau

²American Association for Long-Term Care Insurance, March 2019

³LIMRA Newsroom – August 5, 2021

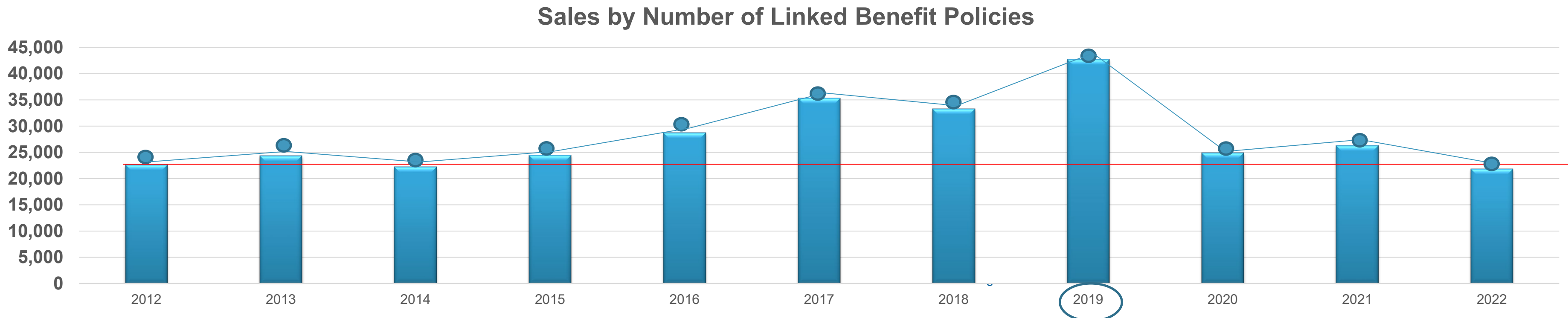
⁴Claude Thau, Society of Actuaries, Feb. 2024

⁵2022 LIMRA Combination LTC Sales Report. This includes charged for chronic illness riders

⁶2022 LIMRA Combination LTC Sales Report.

4. Advisor Waits for the Client to Bring Up LTC Planning

- Insurance companies report that most producers sell only one or two linked benefit policies - period
 - When 2 policies sold, often a couple
 - Assumption is - client(s) is likely requesting a policy
- Repeat business comes from a very small segment of advisors
- Linked benefit policy count sales peaked in 2019 (42,751), then dropped in 2022 (21,802) to just below 2012 levels
- Why the downward trend?



5. More IARs, Fewer LTC Insurance Agents

- Studies show only 33% of all advisors discuss “elder care planning”¹
 - This is typical regardless of the category the advisor falls under
- Investment Advisor Representatives (IARs) now large segment of advisors ¹
 - Many do not sell fixed commission-based products such as LTC insurance
 - Some are “hybrid” dual registered, but doesn’t seem to change dynamic
 - Either ignore the problem, or send client to a non-competitive source such as
 - OID (Outsourced Insurance Desk), or
 - Insurance company’s consumer direct line
- More “LTC specialist insurance agents” existed in the past²
 - Many have migrated to mutual insurance companies

¹ Cerulli Advisor Metrics 2023

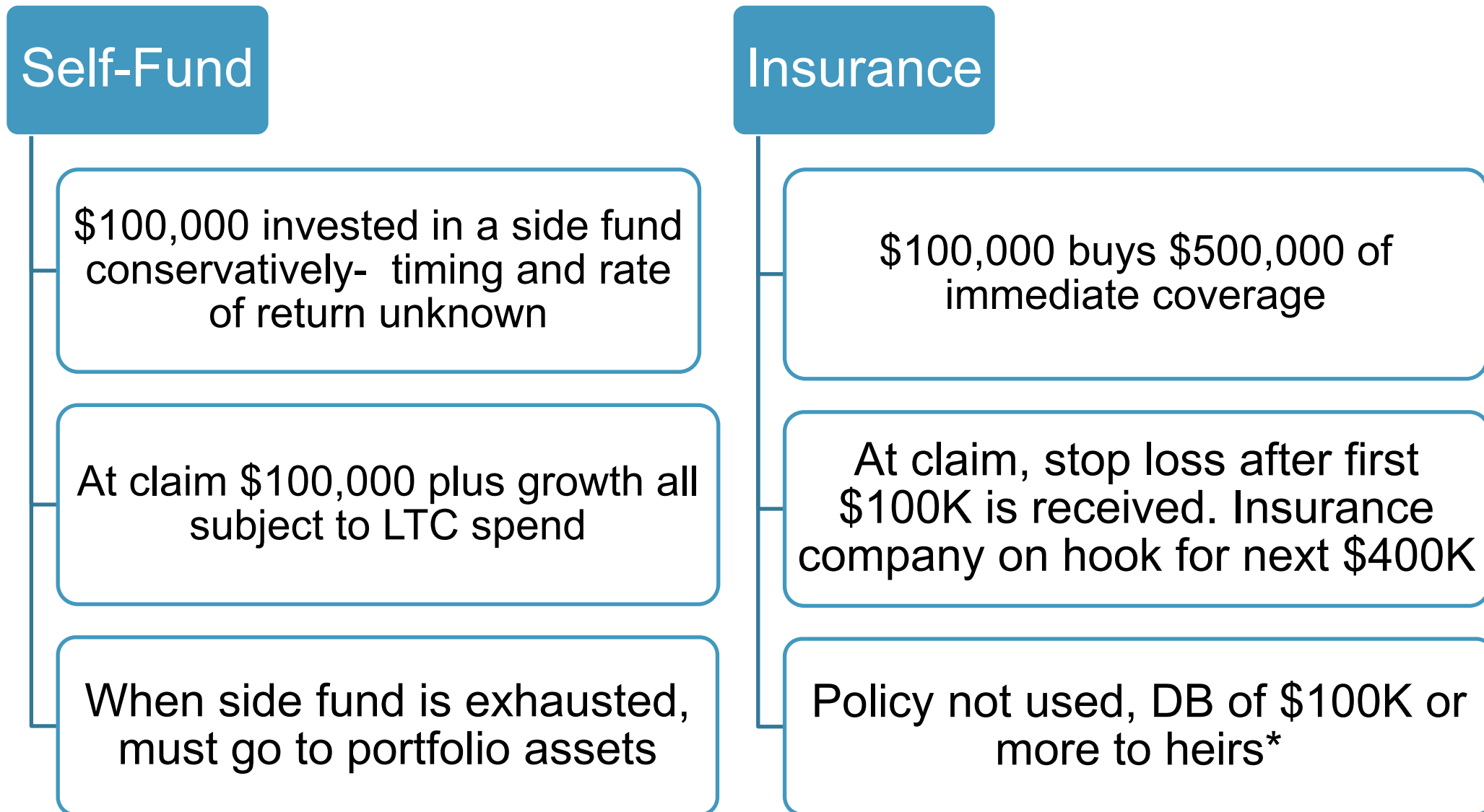
² 2023 Milliman Long Term Care Insurance Survey- Claude Thau, Nicole Gaspar, FSA, MAAA and Chris Giese, FSA, MAAA - July 1, 2023



6. Advisor/CPA/Attorney/Client Believes They Can “Self-Fund”

What justifies not needing to purchase LTC coverage?

- Client got wealthy leveraging other people’s money – why stop now?
- HNW clients might find value in LTC coverage with the side benefits that come with a policy (i.e. care navigation)
- LTC coverage can be positioned as **insuring the portfolio (not the person)**
 - Pre-leveraged, guaranteed, not tied to market
 - Help prevent a “double loss”
- Use investment language such as “stop loss” and “protect the portfolio” to change narrative



* Amount of death benefit will depend on product and age at purchase



Product Innovation to Providing for the Middle Mass Market and Underserved Communities



Providing for the Middle Mass and Underserved Communities

Middle Mass Market

- The goal is not to insure the full need - any amount is better than no coverage
- A joint policy has a \$1500 a month entry point - no inflation - guaranteed premium – 96 payments
 - Age 50/48 - \$88 mo., Age 57/55 - \$126 mo., Age 62/60 - \$169 mo.
- Traditional LTCi insurance also offers low entry points – any coverage helps!

Products for Underserved Communities and Middle Mass

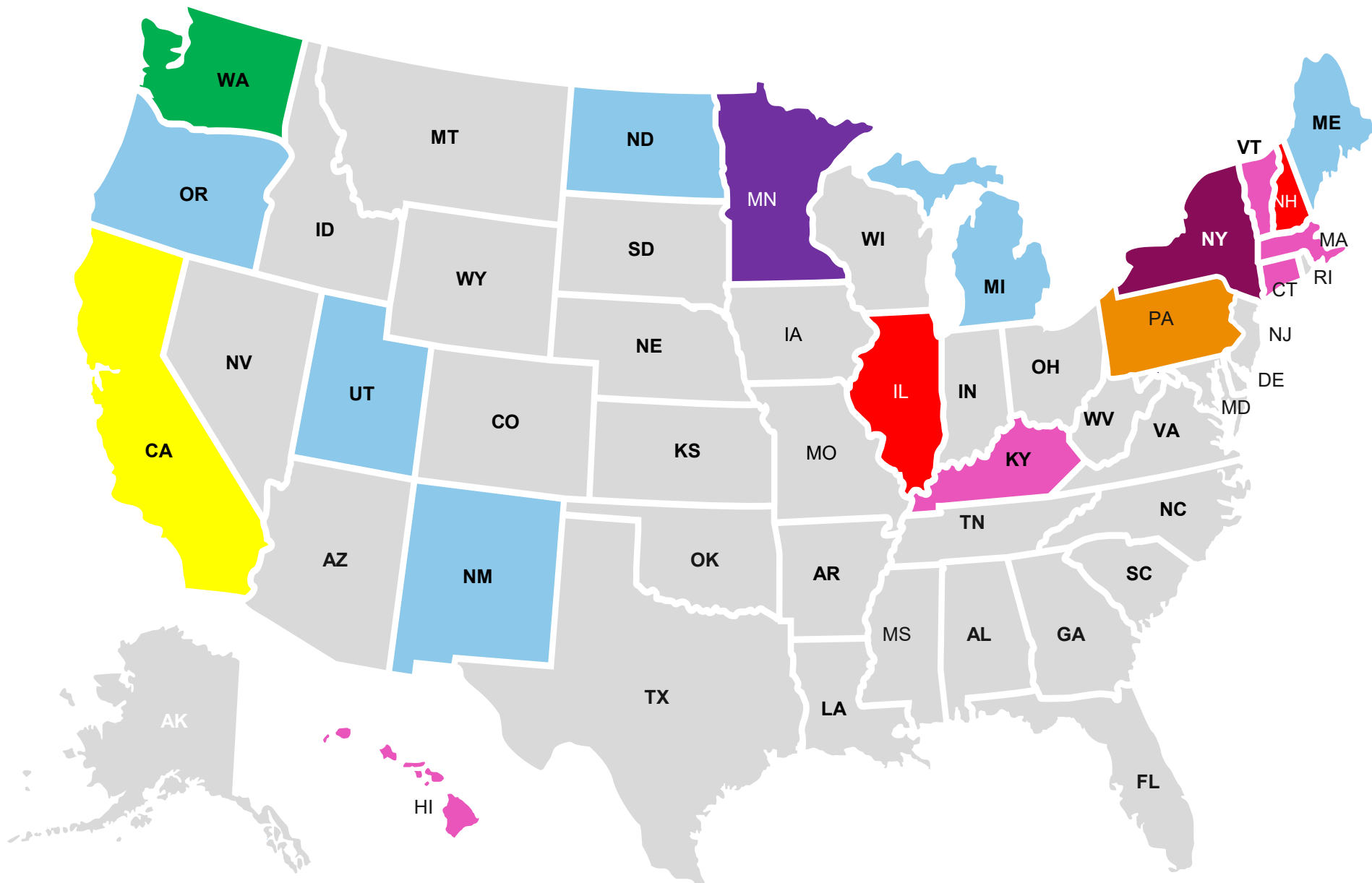
- Deferred annuity - \$25 or \$50 monthly contribution. Tax free LTC benefits
 - LTC benefit base calculated on age of annuity at claim
- Life Stages – term life that drops at a set age - then transitions to LTC coverage
- Group LTC from employer – rates aren't guaranteed, but insurability is for employee
- Develop 1-year elimination period products specifically for underserved communities
 - No choice in elimination – only 365- day elimination period

Potential Challenges/Solutions to Serving these Communities

- Will agents/FA's be willing to talk to this group?
 - Same work for small policies - low commissions!
- Kiosk product at Walmart, Costco?
 - Guaranteed issue (or 4 questions), (5 year) wait to file claim.
 - Think "Colonial Life" commercials
- Small scale loss leader - carrier makes available directly to consumer?
- Will insurance companies be willing to build products with low/no returns?
- Some individual will qualify for Medicaid (legitimately)

What's Happening in State Mandated LTC ?

- | | | |
|---------------------------|-------------------------------------|-----------------------------------|
| ■ No Current Active | ■ Studying LTC Solutions | ■ Active Development of Solutions |
| ■ Passed and Active | ■ Speculation of Future Activity | |
| ■ Bill Proposed | ■ Considering Universal Health Care | |
| ■ Report with Legislature | ■ Previous Bills, Not Passed | |



STATES TO WATCH:

- **California**
- **Washington**
- **Minnesota**
- **New York**
- Connecticut
- Hawaii
- Illinois
- Kentucky
- Maine
- Massachusetts
- Michigan
- New Hampshire
- New Mexico
- North Dakota
- Oregon
- Pennsylvania
- Utah
- Vermont

- Most states only studying options
- CA will not write a bill in 2024
 - Only state to consider secondary incentive to purchase private LTC coverage
- NY bill similar to last proposal but self-employed now included
- WA Cares in jeopardy with Initiative 2124 on November ballot
- MN study - 3 options to consider
 - Care Navigation & Support Services
 - Medicare Companion Product
 - Catastrophic Lite-based Program

Disincentive Factor

Will state programs disincentivize people from buying private LTC coverage?

- Current LTC sales in WA are now very low
 - Do people really believe that \$36,500 is enough?
- CA Task Force seems to recognize the issue
 - Included a secondary on-going “reduced tax” option to keep sales up in the private LTC market space
 - Will other states see the importance of keeping the private market healthy?

Private/Public Partnership with States

Supplemental voluntary back-end coverage to state programs?

- Carriers won't likely build state specific products
 - Too expensive
- A street product that works for all states may be possible
 - Life stages product? (Term insurance converting to LTC insurance)
 - Small coverage with 1 year elimination period could partner with some state bills
 - Would states/the compact approve "back end" LTC coverage with 2-yr. elimination period?
- **But what incentive will states give individuals to purchase this?**
 - States claim they want to partner with LTC industry
 - With no incentive to buy, sales will likely be low – and a loss for insurance companies

Media – Helpful or Hurtful?

- Media coverage is not helpful – bias that we need leave it to heirs!!

[A Guide to Long-Term Care Insurance - KFF Health News](#)

“Many insurers are selling hybrid policies that combine life insurance and long-term care insurance. Those are popular because if you don’t use the long-term care benefit, the policy pays out to a beneficiary after you die. But compared with long-term care policies, hybrid policies “are even more expensive, and the coverage is not great,” said Howard Bedlin, government relations and advocacy principal at the National Council on Aging.”

<https://kffhealthnews.org/news/article/dying-broke-why-long-term-care-insurance-falls-short/>

“More insurers now offer hybrid plans that combine life insurance with long-term care. Those policies are less generous than the ones offered a decade ago — and using the long-term care benefit drains some or all of the money policyholders hoped to leave to their heirs.”

- There is a light in the tunnel

[Does long-term care insurance still make sense if you live with your children? - CBS News](#)

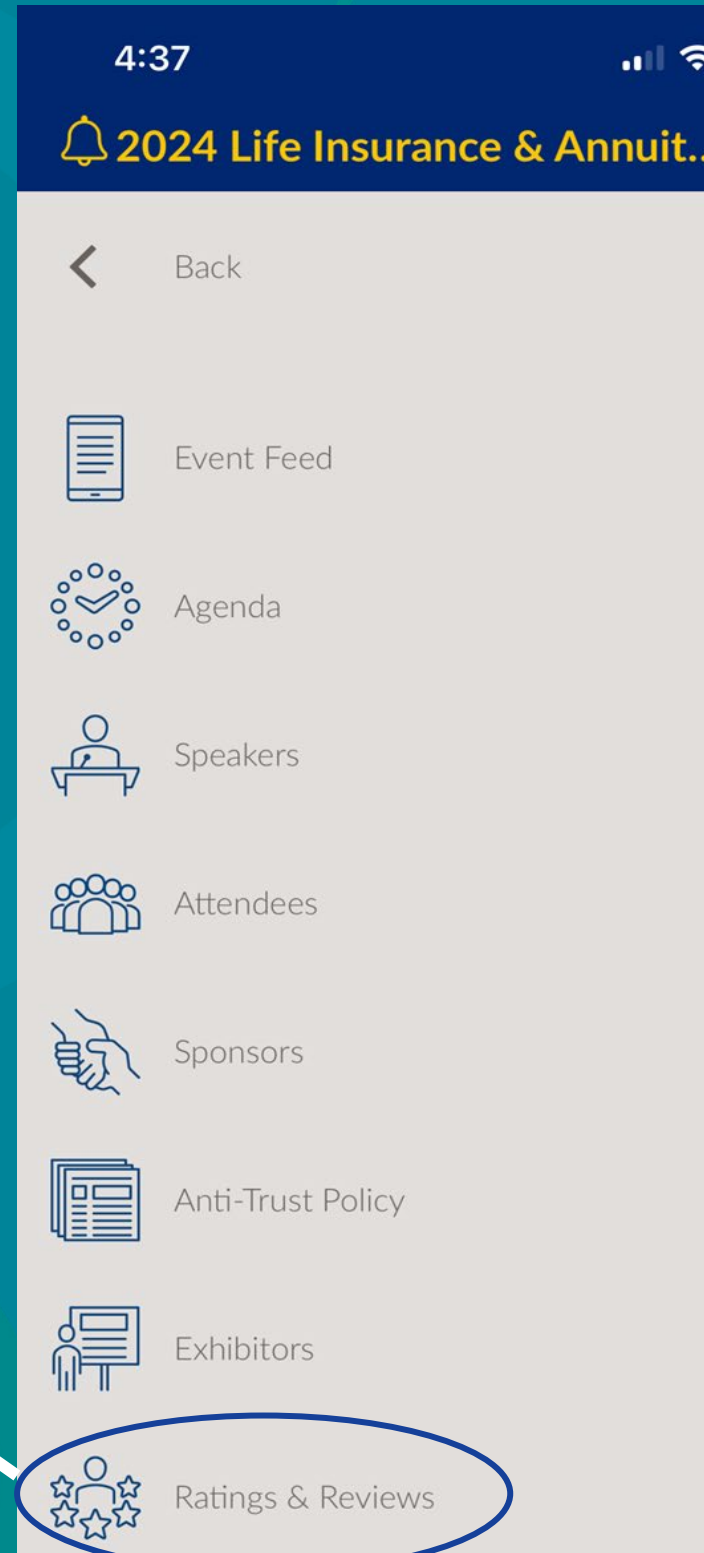
[4 times long-term care insurance is worth it - CBS News](#)

Summary

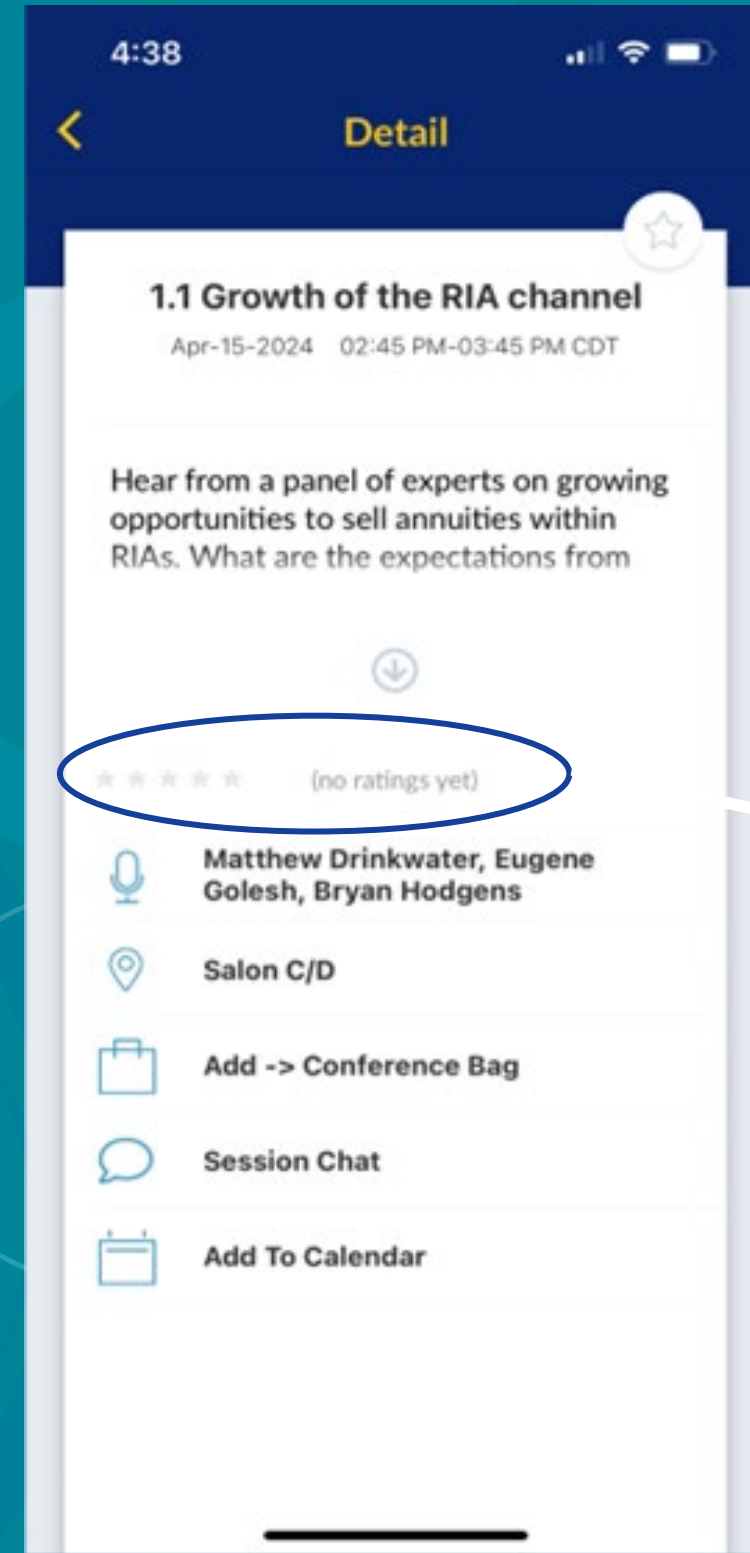
- Do we have a product problem, or a planning problem?
 - Maybe a bit of both – larger issue may be a planning problem
 - Advisors need to proactively discuss LTC, and at younger ages
 - Consider the layering strategy
- Will State LTC programs improve or hurt LTC sales?
 - Will states see the LTC industry as a friend AND
 - Embrace our expertise and offer incentives to purchase private coverage
- How do we get the media to better embrace the LTC industry?

Please Provide Your Feedback on the Conference App

OPTION 1



OPTION 2



Thank You

