NEW INSURANCE PRODUCT: LIFE STAGE PLANNING

Draft Updated August 2015

MERGE TERM LIFE WITH LONG-TERM CARE INSURANCE FOR LIFE STAGE PROTECTION

Description

Early conversations with actuaries, consumers and carriers indicate strong interest and potential in a new product that would merge term life insurance with long-term care insurance coverage. This new product would convert protection from one life stage to another as needed by the individual. The state should encourage development by carriers, complete further actuarial analysis and consumer testing, and design possible pilots to gauge market interest.

Concept Goals

- Provide a more affordable version of a hybrid product than those currently available in the market.
- Provide an appealing choice of long-term care protection for working age, middle-income consumers.
- Provide a protection product whose benefits change as consumer life stage needs change.

Product Concept

This life stage protection product concept would provide a *life insurance benefit* up to age 65, when consumers need this protection most. Then, for approximately the same annual premium and for the same level of coverage, the product would provide a *long-term care insurance benefit* from age 65 on, when consumers are more likely to need that protection.

This product would begin as a multi-year term life insurance product. A portion of the premium paid would be set aside to pre-fund a long-term care insurance benefit. When the purchaser reaches age 65, he/she continues to pay the annual premium, but the life insurance benefit stops and the long-term care benefit begins. Periodic opportunities to increase the level of the benefit would be available, designed in a way to prevent anti-selection.

Product Rationale

The idea of incorporating long-term care benefits into more mainstream products like life insurance and annuity products is becoming more popular with consumers. The idea has appeal because it addresses one of the major barriers to purchase of long-term care insurance: many simply don't believe they will need long-term care; therefore the premiums they pay for the protection will be wasted. Hybrid products offer consumers a chance to get both life insurance and long-term care protection in one product.

While the hybrid concept is gaining in popularity, it has suffered from two problems: 1) products marketed to date have been too expensive for the typical middle-income consumer, the focus of the Minnesota Own Your Future effort; and 2) the product's complexity has added to the already difficult marketing problem for long-term care insurance.

The idea of an affordable, simple product that provides protection against an untimely death during working years, and protection against a long-term care situation during retirement years, is a potentially very appealing solution for consumers.

Key Assumptions

As currently envisioned, the product concept would consist of a term life insurance product that would be combined with a long-term care conversion rider, or a separate long-term care policy that would go into effect at age 65 and stay in effect as long as the premium was being paid. Additional assumptions include:

- The long-term care benefit trigger would be the same as existing long-term care policies- 2 of 6 Activities on Daily Living (ADLs) or cognitive impairment.
- There would be no pre-existing condition exclusions for the Long-Term Care benefit.
- Full underwriting would be done before issue of the life insurance policy but no additional underwriting would be conducted when the life portion goes away and long-term care portion becomes effective.
- To enable coverage to keep up with inflation, a guaranteed buy-up option could be available, which would allow insureds to buy additional coverage in the future, designed in a way to prevent anti-selection.

Actuarial Feasibility Study and Due Diligence

A preliminary actuarial feasibility analysis was conducted to determine whether further study and development of the concept was warranted. Premiums were analyzed at issue ages of 45, 50, 55 and 60 and for $100,000 and $150,000 "pools of money."

The results of that work are encouraging. It appears from this analysis that this product concept could be more affordable than other similar approaches in the market. This needs to be confirmed by additional in-depth analysis.

Additional actuarial work will examine the underlying assumptions of the product concept and arrive at final pricing estimates. From the initial assessment, it appears that the combination of term life that ends at age 65, and long-term care protection purchased earlier but not started until then, may result in some pricing advantages compared to other approaches.

In addition to the actuarial analysis, the concept has been discussed with long-term care insurance carriers that market products in Minnesota, as well as representatives of the Minnesota Department of Commerce. That process has indicated carrier interest in continuing to pursue the concept and raised several interesting questions to pursue, but no "show stoppers" that would keep the concept from moving ahead.

Impact of this Product on Other Stakeholders

Consumers- Consumer research will be used to determine the appeal of this concept, to optimize marketing and product positioning, and to address any potential negatives that may arise.

Employers- This concept has the potential to be marketed as an employee benefit, with term life insurance already an integral part of most employer benefit packages. On a group basis the product will benefit from lower group distribution costs and existing methodologies for product conversion and portability. There may be an opportunity for government entities to consider this on a demonstration basis, as a way to evaluate the impact of an insurance solution on Medicaid budgets.

Insurance companies selling life insurance and/or LTCI- Carrier due diligence has revealed interest in the product concept from both long-term care and life insurance carriers, as a way to address the currently un-served middle-market. Additional work of this nature is needed to further explore the interest and impact on carriers and both markets.

Others- (to be determined)

Questions and Issues Requiring Further Study

The following questions/issues are examples of the efforts needed to confirm the feasibility of this product concept:

- What is the optimal policy structure for this concept? Conversion rider? Two separate but linked policies? Other structure?
- With a more in-depth actuarial analysis, will the premiums still be affordable to Minnesota middle-income consumers?
- When the concept is more fully defined, will Minnesota's middle-income consumers react positively to this concept and see it as an attractive option for them to purchase?
- Are there state and/or national regulations that need to be changed or waived to enable this concept?
- Can sufficient consumer protections be instituted to insure that consumers understand the product, specifically when the life insurance benefit ends and the long-term care benefit begins? What other consumer protections would be uniquely relevant for this insurance product?

Next Steps

- Conduct product evaluation research with Minnesota middle-income consumers to determine their reactions to this concept.
- Conduct additional in-depth actuarial analysis to arrive at final pricing for this product concept.
- Continue to meet with interested carriers to further determine their interest in pursuing this concept.
- Identify specific state laws and regulations that may need to be changed to enable this concept.
- Develop one or more pilot programs to market test this concept.

For more information

- John O'Leary, President, O'Leary Marketing Associates, at (978) 382-8227 or johnvoleary@verizon.net
- LaRhae Knatterud, Minnesota Department of Human Services, at larhae.knatterud@state.mn.us or 651-431-2606