

***Ruark Insurance Advisors, Incorporated (RIA)  
Strategic Health Management Corporation (SHM)***

***Long Term Care Protection  
Provided Within Annuities***

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# Agenda

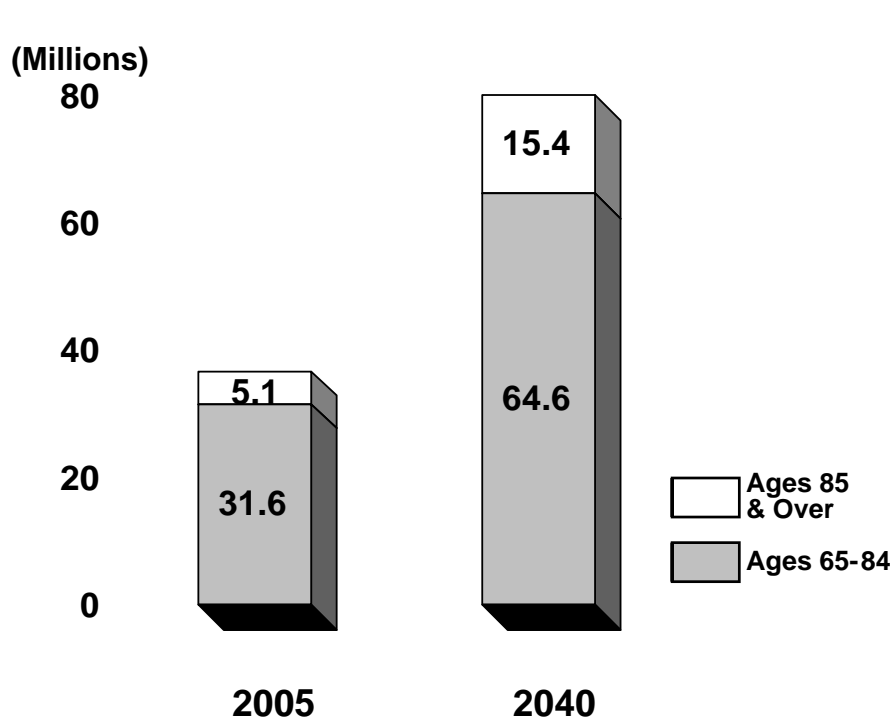


- Long Term Care Insurance (LTCI) Overview
- Pension Protection Act of 2006
- Opportunities for Annuity Combo Products
- RIA/SHM Alliance – One Stop Solution
- Questions/Comments

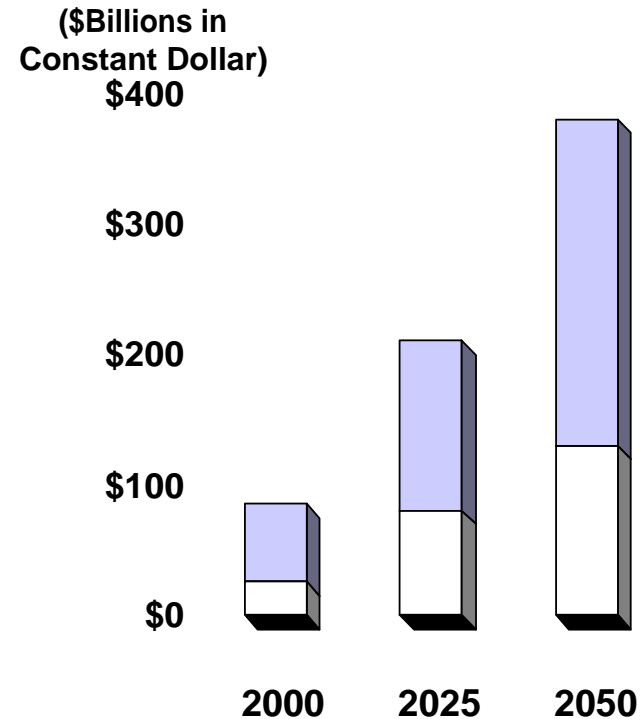
# Market Need for LTC



**Elderly Population will More Than Double by 2040<sup>1</sup>**



**Projected Elderly LTC Expenditures Could Nearly Quadruple by 2050<sup>2</sup>**



**But Support is Declining<sup>1</sup>**

Number of Workers Per Elderly

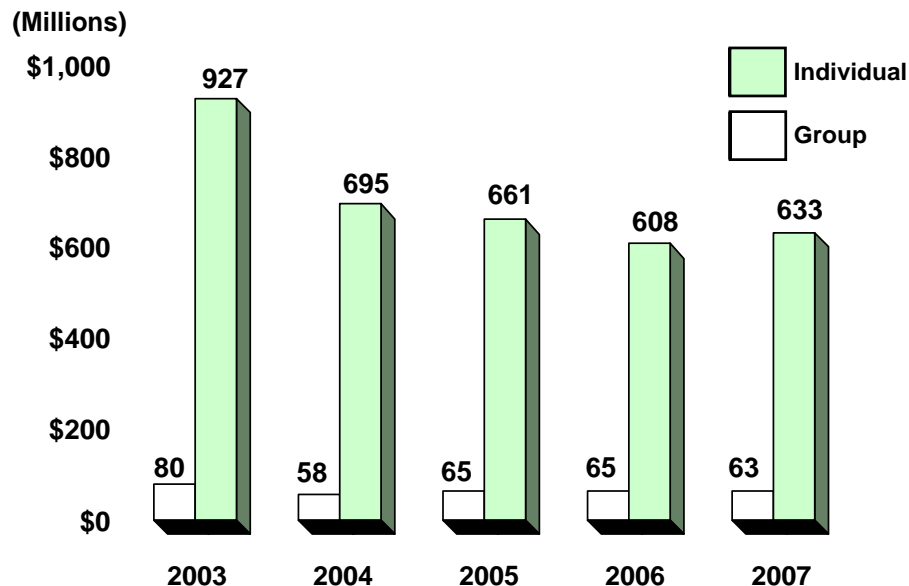


1. *Population Projection - Middle Series*, U.S. Census Bureau, 2000  
 2. *GAO LTC Report*, GAO-02-554T, 2002

# Sales & Market Share



## New LTCI Sales by Premium



## Dominance by a Few

*Top 6 Carriers Have 80% of Total 2007 Production*

Genworth  
John Hancock  
MetLife  
Bankers Life  
Allianz  
New York Life

*Individual & Group LTCI Annual Reviews, LIMRA*

***Sales have been Challenging***

# Individual Sales Process



## **Prospects**

**Qualified Lead  
from Affiliated  
Group  
Endorsements**

**Agents' Client  
List**

**Referral**

**Worksite**

**Lead Generation  
Results have been  
Disappointing**

## **Agents**

**LTC Specialist**

**Carrier Agent**

**Occasional  
Producer**

**Financial  
Planner**

**Security  
Broker**

**Dominated by  
Specialists**

## **Meeting**

**Education**

**Needs**

**Value  
Proposition**

**Suitability**

**Feature  
Choices**

**Disclosures**

**Application**

**Minimum 2 Hours  
& Frequently  
Multiple Meetings**

## **Underwriting**

**Health  
Questions**

**Interview  
(Phone or Face-  
to-Face)**

**Medication Use**

**MIB**

**Medical  
Records**

**30 Day  
Average Issue  
Time & 17%  
Declinations**

# *Factors Driving Sales*



*Realities*

*Top Purchase Reasons  
for Buyers\**

# Distribution

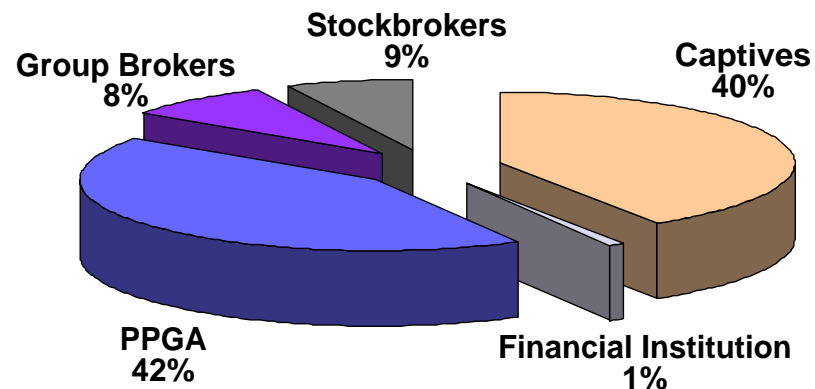


Distribution Method	Key Sales Attributes
<b>Independent Agents</b> LTC Specialists PPGA* Financial Planners	<ul style="list-style-type: none"> <li>Existing Relationship</li> <li>Referrals from Other Agents</li> <li>Regional Sales Support</li> <li>In Context of Financial Planning</li> </ul>
<b>Captive Agents</b>	<ul style="list-style-type: none"> <li>Typically Direct Mail Solicitation</li> <li>No Prior Relationship</li> </ul>
<b>Stockbrokers</b>	<ul style="list-style-type: none"> <li>Hit &amp; Miss by Some Financial Institutions &amp; Broker-Dealers</li> </ul>
<b>Group Brokers</b>	<ul style="list-style-type: none"> <li>Leveraging Health Coverage Relationship</li> </ul>

\* Personal Producing General Agents

Evenly Split Between PPGA & Captives

2007 New Premiums by Distribution



# Complex Choices and Options



## Benefit Choices

- **Comprehensive (Facility & Home Care), Facility Only or Home Care Only**
- **Daily Benefit Maximum**
  - \$30 - \$500 Daily Maximum
  - Weekly or Monthly Available
- **Reimbursement or Cash**
  - Reimburse Actual Charges Up to Daily Maximum, or
  - Cash Benefit = % of Daily Maximum (30% to 100%)
- **Policy Benefit Maximum**
  - 2, 3, 4 Years, etc. Times Daily Maximum
  - Unlimited Available
  - Works Like a Bank Account
- **Elimination Period (Days Before Benefit Payments Commence)**
  - 0, 30, 90, 180 Day Typical
  - 0 Day for Home Care Available
  - Need to Satisfy Only Once
- **Shared Benefit**
  - Allows Couple to Share a Single Benefit Pool

## Policy Options

- **Inflation Protection**
  - Daily Maximum and Policy Maximum Annual Increases
  - Increases for Life or Fixed Period
  - 5% Compound, 5% Simple, Other %
  - Guaranteed Purchase Option of Additional Amount at Attained Age Entry Premiums
- **Alternate Plan of Care**
  - Pays Out-Of-Contract Benefits Subject to Insurer's Approval
- **Paid-Up**
  - Premiums Stop at Age 65, 20 Years, etc.
  - Single Premium Not Available
- **Reduced or Expanded Home Care Benefit**
  - 50%, 75% or 150% of Facility Daily Maximum
- **Restoration of Benefits**
  - Policy Benefit Maximum Restored if Not Claim Eligible for 180 Days Following Recovery
- **Nonforfeiture**
  - Reduced Paid-Up Coverage if Lapsed

# Key Risk Issues for LTCI



- Morbidity
  - Low Incidence (< 1% Per Year on Inforce) & High Severity
  - Long-Tailed Risk – Lack of Credible Insured Experience
  - Utilization Trends – Changes in LTC Services & Consumers' Attitude towards Care
- Persistency
  - Lapse-Supported Product
  - Annual Voluntary Lapses < 2%
  - Mortality Improvement
- Investment
  - Long Liability Duration → Reinvestment Risk

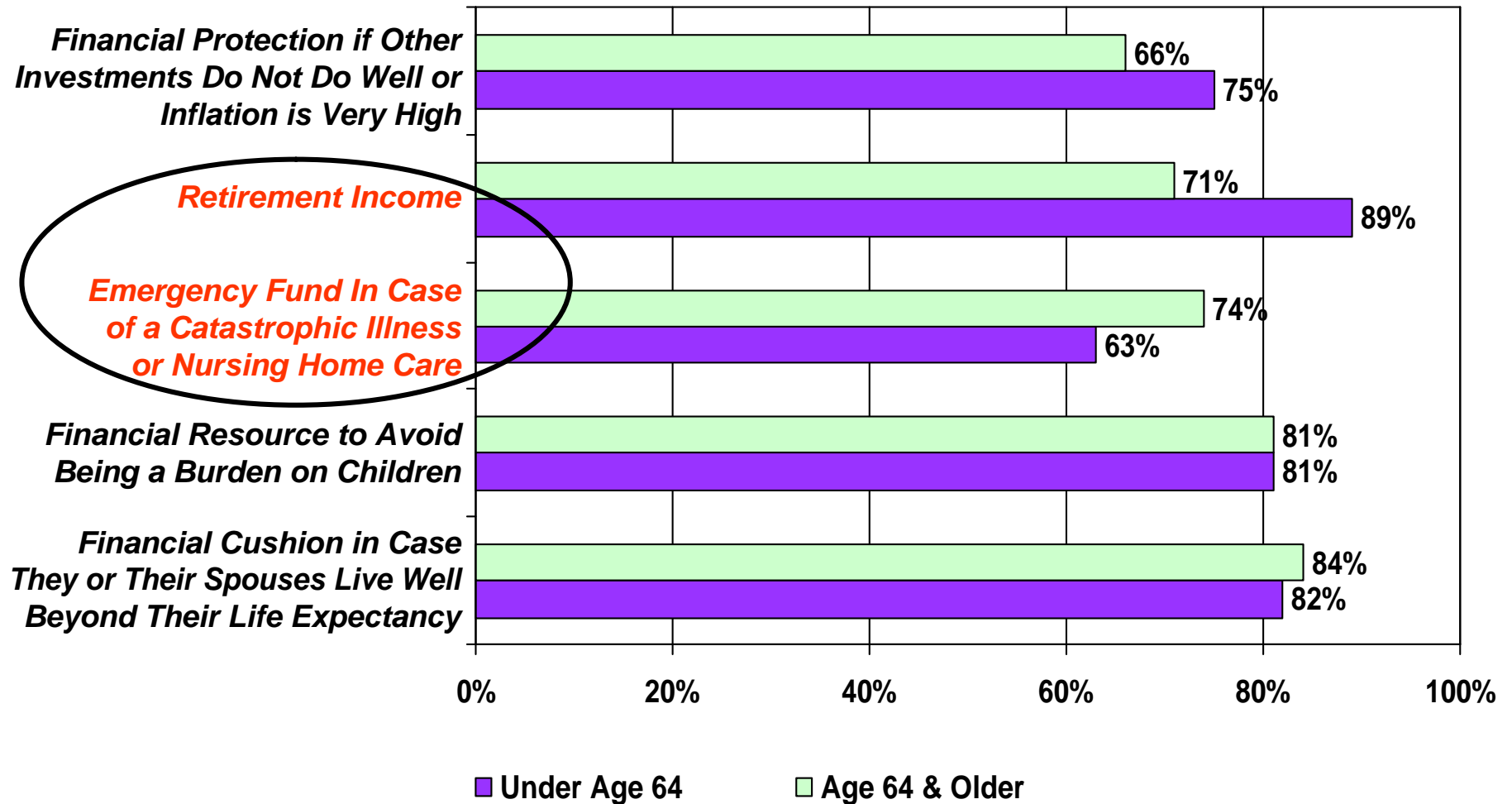
***Potential Risk Offset with Annuities***

# *Pension Protection Act 2006*



- *Tax-Qualified* LTC Benefits in Life Insurance & Annuity Combos are Tax-Free After 2009
- Cost of LTC Insurance Reduces Cost Basis
- Permit Exchange (Sec. 1035) to Life Combo, Annuity Combo or Standalone LTCI
- DAC Tax of 7.7% for Annuity Combos

# Uses of Annuities



NAVA 2007 Annuity Fact Book

**PPA is Catalyst to Align Annuity & LTCI Worlds**



## *What are the Chances You Will Need Long Term Care in the Future?*

- 69% of Seniors 65+ will Need Some Form of LTC
- Average LTC Period 3 Years
- 20% > 5 Years

*Long Term Care Over an Uncertain Future: What can Current Retirees Expect?*  
P. Kemper, H. Komisar & L. Alecxih, *Inquiry* Winter 2005/2006



## *How Much will It Cost Per Year?*

- Average Nursing Home Stay: \$68,000
- Average Assisted Living Stay: \$36,000
- Average Home Care: \$20,000

*Cost of Care Survey, Genworth Financial & CareScout, 2008*



## *Who will Pay for It?*

Health Insurance:                      Nothing

Medicare:

- First 20 Days in Skilled Nursing Home
- Excess of \$128 Co-Payment the Next 80 Days
- Rehabilitative Home Care

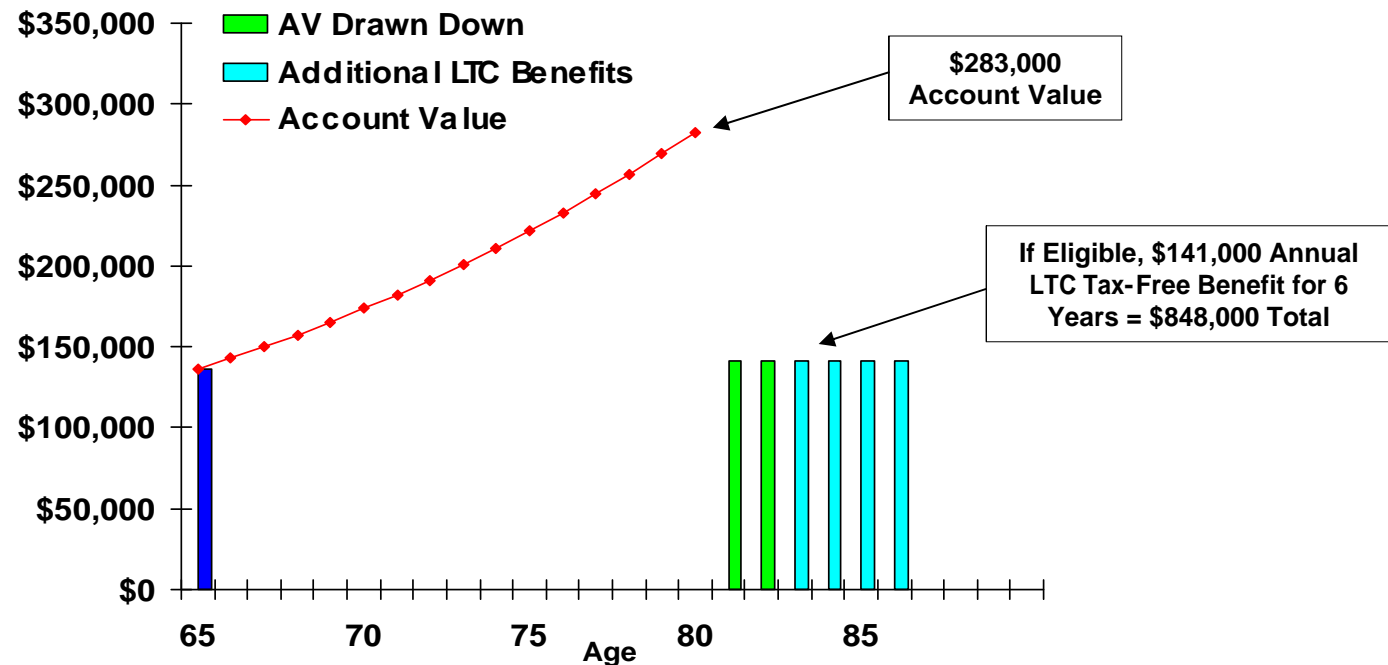
# An Annuity Combo Example



- When LTC Benefit Eligible, Draw Down on AV First @4% of AV Per Month for 24 Months
- When AV Exhausted, Additional 48 Months of LTC Benefits
- Withdrawal Prior to Claim Reduces LTC Benefits Proportionately

## Assumptions

- Purchase Age 65
- LTC Benefit Eligible at Age 81
- 100 BP Purchased-Age Based Asset Charge
- 6% Annual Earned Rate
- \$68,000 Current LTC Service Cost = \$141,000 Projected Cost @ Age 81 (5% Inflation on Cost)
- \$136,000 Single Deposit



# *Design Considerations*



- Product Simplicity
- Underwriting
- Low Price vs. High Price
- Cash vs. Reimbursement
- Form of LTC Charges
- Rate Guarantee
- Ancillary Benefits

# *Annuity Combo Advantages*



## *Consumers*

- Overcome the “Use It or Lose It” Concern with Standalone LTCI
- Tax-Free LTC Benefits
- Tax-Free Inside Build-Up if Used for LTC
- 1035 Exchange
- Potentially Simplified Product
- Built-In Inflation Protection

***A Viable Alternative to Standalone LTCI***

# *Annuity Combo Advantages*



## *Producers*

- Broaden Market Appeal for Annuities
- Add-On Sales
- 1035 Exchange Sales
- Potential Incremental Income from Renewal Commissions

# *Annuity Combo Advantages*



## *Insurers*

- Increased Attractiveness of Annuities as a Retirement Vehicle
- Additional Margins from LTC Charges
- Improved Persistency
- Risk Hedging Opportunities
- Capitalize on 1035 Exchanges

***Potentially a Game Changer***



## *One-Stop Solution for Best-In-Class Services*

- Product Development & Implementation Support
- Reinsurance
- Sales & Marketing Support
- Agent Training
- Underwriting & Claim Administration
- Valuation, Reinsurance Reporting, Statutory Reporting & Experience Analysis

***Minimize Market Entry Costs & Risks***



# Questions/Comments