
From Genworth, a Less Painful Way to Buy LTC Insurance

By Editor Test *Wed, Mar 31, 2010*

With this product and others like it, the cost of LTCI is greatly reduced because the fixed annuity assets serve as a very large deductible.

Genworth Financial, Inc. has issued a long-term care/annuity hybrid product, joining the handful of companies who have taken advantage of a provision in the Pension Protection Act of 2006, effective January 1 of this year, that resolves a tax technicality that barred such products in the past.

The Richmond, Va.-based insurers' new product, Total Living Coverage Annuity (TLCA) combines a single-premium fixed deferred annuity with long-term care coverage. It is underwritten by Genworth Life Insurance Company.

Like products announced last year by several companies (see *RIJ*, July 8, 2009, ["A Short-Cut to Long-Term Care Insurance"](#)), the product in effect allows owners of fixed annuities to withdraw the assets tax-free when applying them to long-term care costs. The cost of long-term care insurance is greatly reduced because the fixed annuity assets serve as a very large deductible. Genworth introduced a universal life insurance/LTC hybrid a few years ago.

The product, whose market consists of the estimated \$96 billion in out-of-surrender-period fixed annuity assets in the U.S., will mainly save money for people with significant unused capital who would otherwise self-insure against the risk of incurring long-term nursing home or home health care costs.

Katie Liebel, vice president of fixed annuity products, described how the new hybrid works. If an investor put \$100,000 into the new product, for instance, he or she could choose \$200,000 or \$300,000 worth of long-term care coverage, spread over a period of four or six years, she said. Inflation-adjustment is available as an option.

"Only seven percent of the people who are looking for long-term care insurance actually purchase it, and the other 93% are self-insuring," Liebel said. "This allows them to self-insure more effectively."

The product, which can be funded with assets from another annuity or life insurance policy, has a minimum premium of \$35,000. Once invested, the money earns 3.25% (with a minimum guarantee of 3%) or as much as 3.65% if the premium is \$150,000 or more.

As the assets grow, the issuer assesses an insurance charge of between 0.40% and 1.5% on the insurer's exposure. The expense ratio depends on the amount of coverage purchased as well as the age and health of the purchaser. Liebel described the underwriting as "simplified, with no lab tests or review of doctors' records."

Over time, the annuity would grow and the insurer's exposure would shrink, resulting in a steady decline in fees. The annuity owner could withdraw money from the contract, but doing so would cause a

proportionate reduction in the amount of LTC coverage.

Many existing annuity contracts allow accelerated payouts for nursing home costs, but the distributions are not tax-free, as they are when combined with long-term care insurance.

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