Genworth's "Medically Underwritten" SPIA Offers Higher Payouts

By Editorial Staff *Thu, Feb 25, 2016*

People ages 70 to 95 who are about to enter care can receive monthly payments that are 20% to 50% higher than payments from a comparable conventional life-contingent single premium immediate annuity, according to Genworth's Kristi McGivern.

Life-contingent annuities are typically sought by healthy people who expect to live longer than average. So the idea of a life annuity for people who don't expect to live very long is a bit counterintuitive, even if you account for the higher payout rates that people with higher mortality risk could expect to receive.

But Genworth, the Richmond-based, publicly-traded life insurer, sees a substantial market for just such a product among older Baby Boomers who become ill and face an open-ended period of elevated medical expenses but who do not own long-term care insurance.

Genworth calls its new product, announced this week, the **IncomeAssurance Immediate Need Annuity**.

"Medically underwritten" annuities, as this type of product is called, are fairly rare in the United States. A few years ago in England, at a time when most Britons were still required to annuitize at least part of their tax-deferred savings by age 75, medically underwritten or "impaired" annuities were fairly heavily advertised. They offered less healthy Britons, who needed to comply with the annuitization requirement, the consolation of higher annuity payments.

Such products have not been widely offered or used in the U.S. The market for medically underwritten annuities "is very small right now," independent actuary Tim Pfeiffer, who did not work with Genworth on the design of this product, told *RIJ* this week. "Only a few carriers have played in that space over the past five years. The key is making the determination of impairment non-invasive, but yet accurate and able to translate to a meaningful benefit pick-up. It is a product probably best suited to an insurer who is not writing a lot of standard SPIAs/DIAs right now.

"That's because an impaired product could bifurcate the risk pool, sending those in poor health to the impaired product, and leaving more healthy lives in the standard product—resulting in lower profitability or the need to reduce payouts on the standard product," Pfeiffer added. "Personally, I like the concept, but it needs to be positioned very carefully."

The new Genworth product is aimed at people over ages 70 to 95 who probably wish they’d purchased long-term care insurance, but who now, given their impaired health, could not qualify for it. According to a Genworth release this week:

“This is a strong solution for what Genworth calls “the other half” of the retiree market, referring to those who may not qualify for long-term care but are still in need of care. Notably, the product allows those who are sicker to pay an equal or in some cases lower premium for the same amount of coverage, creating a stronger stream of retirement income.”

The product also fits Genworth’s corporate-level decision to focus providing insurance for the medical expenses associated with old age.

“During our fourth quarter earnings call [earlier this month], we announced that we’re going to focus our U.S. life insurance division on long-term care insurance and other aging products” and this product reflects that strategy, said Kristi McGivern, director of product marketing for the life division.

“This is a medically underwritten single premium immediate annuity that allows us to write contracts for people who are over age 70, who are in immediate need of care,” she told *RIJ*. “There are no lab tests, no blood or urine samples taken. It’s not like life or long-term care insurance underwriting. We send out a nurse, review the medical records, and we determine a custom income stream. There’s a one-time assessment of health. No one is denied this product because of a health condition.”

The typical payout for the Genworth product will be 20% to 50% higher than that of a non-underwritten SPIA, McGivern said. So, if a conventional SPIA purchased with $100,000 paid out $7,000, the new Genworth product might pay out $8,400 to $10,500 a year for life.

The ideal client for this product would be someone who has a serious medical condition but is not terminally ill. “They’re at risk of outliving their savings while they still need care,” McGivern said. “You don’t need to be on your way to the hospital to use this product.”

This product, unlike long-term care insurance, provides income that can be used for any purpose, medical or non-medical. The annuitant receives regular income and pay for health-related services without having to file claims for reimbursement.

“We’re positioning it as a new way to pay for care medical care that’s not covered by Medicare for people whose families are going through the process of how they’re going to pay for someone’s care,” she told *RIJ*.

“Our market research uncovered the fact that rising medical costs was a concern, so we built in a cost-of-living adjustment that ranges from zero to eight percent, compounded annually, that increases the guaranteed monthly income,” she added.

“A second concern was, ‘What if my mother passes away shortly after she purchases this?’ So we include a six-month death benefit in the basic product and an optional enhanced benefit that can protect a portion of the premium for up to five years.”

McGivern said that this product isn’t as hard to price as long-term care insurance. LTCI is often purchased decades before a claim is submitted. By contrast, there’s a relatively brief period—sometimes only two or three years—between the purchase of the medically underwritten annuity and the death of the insured, so the issuer has a much smaller window of exposure to changes in interest rates or mortality rates.