Longevity Insurance with an Inter-Generational Twist

By Kerry Pechter *Thu, Nov 21, 2019*

In MassMutual's new all-digital deferred income annuity, an adult child is the owner, and receives income when a parent (the annuitant) reaches age 91.

Is there a market for a deferred income annuity (DIA) contract that middle-aged people can buy digitally, with monthly contributions of under $250, that will pay them an income if and when one of their *parents* reaches a ripe old “trigger age”?

MassMutual and its subsidiary, Haven Life, are betting that mass-market Gen-Xers and Millennials with aging parents present just such a market. They’re making the product affordable by using digital-only distribution and delaying the earliest income age to 91.

Their product is called “**AgeUp**.” It will be issued by MassMutual and distributed by Haven Life Insurance Agency, a MassMutual in-house fintech startup. Haven Life acquired the web technology for the service by purchasing Quilt, a Boston-based insur-tech firm. For a product fact sheet, click **here**.

Quilt had developed a Betterment-style website model (colorful, lots of white space, with ultra-simple navigation, a child’s-play calculator and minimal client inputs). Its success in selling term life and other insurance products online got MassMutual’s attention. Now the insurer, the in-house distributor, and the in-house tech partner are collaborating on AgeUp.

Blair Baldwin

“There are three things that make AgeUp unique: the longer deferral period, the financial availability, and the fact that we split the parties of the contract, so that the contract owner is the adult child and the parent is the annuitant,” said Blair Baldwin, general manager of the AgeUp product and founder of Quilt.

MassMutual will not be the first to enter the market for multi-premium, digitally-distributed DIAs. Nationwide and Blueprint Income have been in it for several years. Others, like Kindur, have jumped in more recently. But AgeUp has a very different spin.

AgeUp’s target customers are people in their 30s, 40s, or 50s with household incomes of $50,000 to $100,000. They’re far-sighted enough to recognize that they might have to support a parent in extreme old age. But they can’t afford long-term care insurance for the parent or a big-premium DIA for themselves.

Most other DIAs require the income to start by age 85. AgeUp pushes the start age to 91 to achieve higher mortality credits from longevity risk pooling, which allow mass affluent to buy more income than if payments started earlier. Baldwin, a graduate of Harvard College and Harvard Business School, pointed out to *RIJ* that the mortality credits at 91 are significantly greater than at, say age 89.

In this scenario, the Millennial or Gen-X child would own the contract, and the parent would be the annuitant. The anticipated monthly payment would be $25 to $250, with a maximum premium of $6,000 per year, according to Baldwin. The product would be available with and without a cash refund feature.

Here’s an example easily calculated at the AgeUp website. If the purchaser were 45 years old and the parent 70 years old, and the child contributed $250 a month for 20 years (a total purchase premium of $60,000), the purchaser would receive an income of about $2,300 a month until the parent died.

Adding a cash refund would reduce the monthly income to about $1,400. In that case, the death of the parent before age 91 would trigger a refund of the paid-in principal to the contract owner or to the owner’s beneficiary if the original contract owner has died. In the example above, adding a cash refund would reduce the monthly payout to just $1,400.

“[We’ve found that] about half of the people would rather skip the cash refund and pay a lower monthly income for the same amount of income and about half would rather have the return of premium guarantee and take about half as much future income,” Baldwin said.

The contract ends with the death of either the contract owner or the annuitant. If the parent is still alive but the original contract owner has died, the contract owner's beneficiary cannot continue the contract by making subsequent monthly payments. If the contract owner became terminally ill, however, he or she could transfer ownership to another person, and the new owner could continue the product, Baldwin said.

One benefit of having the child serve as the contract owner, Baldwin said, involves Medicaid. As long as the income stream from the annuity doesn't belong to the parent—who might already be a Medicaid client—then it doesn't interfere with the parent's ability to qualify for Medicaid. "This was a conscious product design," Baldwin told RIJ. "For parents who are that old, the kids are probably managing their money anyway."

"I co-founded Quilt in 2015, and we were on the property & casualty and life & health side. We wanted to do some innovative product development work in insurance, but we had no manufacturing capability," he said.

"When the opportunity popped up for us to join Haven Life and MassMutual, they gave us an open-ended challenge: Take a totally fresh look at annuities and create a new annuity product that resonates with the underserved middle market. And it had to be all digital—no advisers—a pure-play digital product."

To drive consumers to the AgeUp website, Baldwin and Haven Life have launched a media blitz. Baldwin said an ad campaign to people in their 30s to 50s is planned for social media sites Facebook and Instagram.

AgeUp was recently approved for sale in 44 states, Washington, D.C. and Puerto Rico, with plans to reach even more of the population by the end of 2020. In 2020, another version of the product will allow people in their 60s and 70s to buy AgeUp for their own future expenses. In that product, the contract owner and annuitant will be the same person.