Mapping Out the Market for LTC Hybrids

By Editor Test *Tue, Jul 7, 2009*

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There's little doubt that Americans need affordable long-term care coverage. And annuity/LTC hybrids can certainly help meet that need. But how big is the market for this product? And who will distribute it?

Generally, the prospects for fixed annuity/LTC hybrids will be individuals who have socked away $75,000 or more in a money market fund or CDs as self-insurance against a medical catastrophe, or people with variable annuity assets they might exchange into a fixed annuity with an LTC rider.

"This appeals to someone who has more than enough assets for retirement income and who says, 'I'll self-insure against long-term care.' They think $75,000 or $100,000 is enough, but it's not. It's only enough for a year. So we say, put the $100,000 in a fixed annuity. If you need inursing home care, you get $300,000 worth of coverage. If you don't need care, you can give the $100,000 to your kids," said Scott Goldberg, vice president, strategy/marketing at Bankers Life.

"Fixed and variable annuities have been sold in large quantities, and many who thought they might need it for income find they haven't had to use it. Right now [the hybrid market] is exclusively an exchange market," said Bruce Moon, senior vice president at OneAmerica.

"The other part of the market is folks who have that just-in-case money in low interest accounts, money that they regard as their self-funded funded long term care account," he added. "We show them that you can do a lot more with your money by using an annuity, and the federal government will actually give you a tax break for long-term care," he added.

Issuers of the hybrids plan to distribute them as they would distribute either fixed annuities or LTC insurance. Career agents and independent agents will sell them, as well as banks, brokerages, and financial advisers. In some cases, apparently, the annuity will lead the sale and in others the LTC insurance will lead the sale.

"We've been piloting the [hybrid] product in a few states," said Beth M. Ludden, senior vice president at Genworth Financial, who uses a career agent force as well as third parties. "At first we weren't sure whether the profile of the distributor would be. We found that the traditional annuity seller is transaction-oriented, and there was too much content for them."

"But it has enormous appeal to traditional LTC care distributors, once they get their head around asking for more money [than a mere LTC insurance premium). For financial planners, it's easier for them to understand the tax implications, and when they do, they get very interested," she said.

Innovation potential

For Cary Lakenbach of Actuarial Strategies Inc. in Bloomfield, Conn., an architect of LTC/annuity hybrids and product development consultant to insurance companies, "this product should be sold as a way to enhance the value of an annuity. It's still primarily an investment sale, one that's also going to answer your protection needs."

"The annuity feature is being lost in the shuffle and the focus is too much on the LTC. The guys who will sell this are primarily financial advisors. They haven't been in the LTC business, and you want to provide them with a vehicle that reinforces an investment sale," he said.

Of course, the number of people who can afford to park $100,000 in a fixed annuity as a hedge against LTC costs may not be huge. According to the June 2007 report, "Long-Term Care Financing: Policy Options for the Future," the median non-housing wealth of even the highest-earning 11% of Americans was only $238,000 in 2000.

"The big initial premium will continue to make the combo sales niche-y, but we're finding that it's a bigger niche than we first thought," said Ludden.

But the current crop of LTC/annuity hybrids may represent only a hint of the kind of innovation and variation that could arrive during the third and four quarter of this year, as the January 1, 2010 effective date draws nearer and more companies enter the hybrid market.

There's no reason, for instance, why LTC insurance has to be linked only to fixed deferred annuities. "Companies are developing one design, but what if you wanted LTC insurance with an indexed annuity, or a nine-year guaranteed fixed annuity, or a declared rate annuity?" Lakenbach said. "So far, the offerings are very limited. People shouldn't be limited in the type of annuity they can have."

Some of the larger annuity manufacturers have been distracted from developing and launching their LTC hybrids by the financial catastrophe, and by their internal efforts to re-price and de-risk their variable annuity rider offerings. But they are expected to weigh in eventually.

"In conversations I've had with the 'Eastern,' old-name companies, they have always targeted a January 1, 2010 launch," said Moon. "So I don't think they've been on the same track as us. I think [the new product announcements] will pick up in November and December. As we get closer to January 1, more companies will be getting their message out."