

Hybrids an alternative to LTC rate increases

Sales of the non-traditional products reached \$813M in '09

By Darla Mercado

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Policyholders and financial advisers increasingly are looking at hybrid alternatives to traditional long-term-care policies as insurers, wary of rising liabilities, are bailing out of the business or proposing huge rate increases to make up for increased longevity and lower lapse rates.

The Guardian Life Insurance Company of America bailed out of the LTC insurance business this month and MetLife Inc. left in November.

In MetLife's case, low interest rates crimped the returns it got on fixed-income investments, which help fund the cost of claims. Guardian decided to focus on life and disability insurance.

Companies staying in the insurance business said that if rate increases don't go through, they likely will face higher charges against their earnings or run into difficulties covering claims.

Genworth Financial Inc. recently announced an 18% rate increase, and John Hancock Life Insurance Co. made rate hike requests to regulators in every state for as much as 71.1% for certain products. The insurer said that policyholders could drop their riders or lower their benefits to mitigate the increase.


John Hancock's rate request already has been shot down in New Jersey, where the company will re-file, and North Carolina. Pennsylvania granted the rate increases for policyholders with 5% inflation riders but capped the hike at 15% for customers without the rider, according to regulatory documents.

Connecticut capped the increase at 8%.

For the retired, the rate hikes can be especially vexing.

William R. Engelman, a 78-year-old retired physician in Freeland, Mich., saw the premium on his policy rise to \$6,282 last year, from \$1,396 in 1995. The policy, which is administered by the Senior Health Insurance Co. of Pennsylvania, formerly Conseco Senior Health Insurance

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Co., was to be hiked to \$7,853 this June. Instead, Dr. Engelman chose to have his policy considered “paid up” for a full benefit of about \$40,000.

Advisers and agents, too, have been bracing for the fallout from the rate increases.

“There's a great unknown,” said Peter Leppones, vice president of marketing at Life Plans of New England Inc.

“John Hancock is looking for a 40% rate increase today, but what will happen in five or 10 years? Here's this expense that can go up when you're retired and living on fixed income,” Mr. Leppones said.

As a result, advisers and agents are looking more at the single-payment hybrid solutions, also known as asset-based LTC insurance. They typically combine life insurance and LTC benefits, and limited pay policies.

“At our practice, we still sell traditional long-term care, but now we're selling more of the hybrid products to give our clients an option on how to insure,” said Jeffrey A. Carbone, a managing partner at Cornerstone Financial Partners LLC. “Some of that is due to what's going on with the LTCI providers.”

“There's definitely more interest [in hybrids], and we're definitely seeing more of them purchased. It's still smaller compared to the overall market, but I think it will continue to increase,” said Julie Gelbwaks Gewirtz, executive vice president of Gelbwaks Executive Marketing Corp.

“We're actually seeing a lot of people stop selling traditional LTCI,” said Caleb Nitz, an investment marketing analyst at ValMark Securities Inc. “For clients with traditional policies and who are hesitant about whether insurers will raise rates, we look at supplementing the risk with a hybrid option.” Typically, that funding comes from exchanging an existing life insurance policy that's no longer needed for a life-LTC combo, he said.

Life-LTC hybrid sales have been rising steadily, with premiums reaching \$813 million in 2009, up from \$633 million in 2008, while new premiums for traditional LTC insurance declined to \$464 million in 2009, from \$602 million in 2008, according to data from LIMRA. Numbers for 2010 aren't yet available.

“We definitely expect increased sales of the hybrid product, but it's not necessarily an effect of what's going on in the long-term-care-insurance market,” said Catherine Ho, a research actuary with LIMRA. Agents likely revamped their sales strategy to move hybrids in 2008 and 2009 when individual-life-insurance sales fell, she said.

Hybrid life-LTC products on the market include John Hancock's LifeCare, a single-premium whole-life policy with LTC benefits, and Lincoln National Corp.'s MoneyGuard Reserve, a universal-life policy with LTC features. Genworth Financial Inc., Hartford Life Inc. and OneAmerica Financial Partners Inc. also have offerings.

The products provide a payout to clients either in the form of a death benefit or LTC coverage, eliminating the use-it-or-lose-it nature of traditional LTC insurance.


“The problem with rate increases is that when you're 10 years older, you can't shop for coverage and get similar rates,” said Robert L. Deets, owner of Robert L. Deets & Associates. “What we like about MoneyGuard is that the rates are guaranteed — if you're in, you're in.”

Even if hybrids become the go-to product, they aren't necessarily best in all cases. For instance, combo products aren't eligible for state LTC insurance partnership programs. These programs encourage citizens to buy LTC insurance and protect their assets if their needs go beyond their coverage.

Benefits for traditional LTC insurance used to be considered more robust compared with its asset-based cousin, but lately, that seems to have changed, Ms. Gewirtz said.


“Genworth's a leading seller in the traditional marketplace, but they took their Privileged Choice policy and moved it to a life insurance product,” she said.

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