LIFE INSURANCE SELLING

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Combo Products

Combo products: Where is the path from potential to REALITY?

By addressing the challenges that face combo LTCI-annuity and life-CI products, insurers can create a strategic plan that answers advisors' questions and enables them to delve into an emerging market.

By Jan Soppe, FSA, MAAA

In the world of consumer marketing, new product introductions are known to be expensive, high-risk ventures. Sophisticated consumer product companies typically expect that as much as 80% to 90% of their research and development investments will not make it through rigorous product/market testing.

This parallels the current dilemma facing insurers and distributors who can foresee the tremendous opportunity for combo products involving long-term care (LTC) and critical illness (CI) insurance, to bring a viable product to market, but there's no clear path and very limited success thus far. Obvious challenges facing executives considering combo annuity-LTCI products include how to:

(1) Optimally combine an investment vehicle with an underwritten insurance product;

(2) Constructively realign/train/compensate a sales force in a previously-unrelated product; and

(3) Effectively communicate and sell this rather complex story to target audiences.

And yet, a confluence of forces is creating an immense and immediate market opportunity for new combo products:

- The vast majority of consumers are looking for secure investments, and are rightly concerned about outliving their assets;
- Ongoing financial turbulence, loss of real assets in housing and stocks, and low return on CDs (and other low-risk investments) work together to limit the asset side of the consumer's ledger;
- Increasing longevity and associated frailty, cognitive issues and chronic health conditions inflate the expense side, when more than 50% of the 65+ population requires long-term care services.

LTCI-Annuity hybrids

Combo annuities, spurred by tax incentives of the Pension Protection Act (PPA) effective January 2010, can provide an ideal combination of retirement income and asset protection from long-term care events. But what is the best way for a prudent insurer to get from here to there?

An essential key is to customize the product design to reflect the insurer's distribution realities. It appears that the shortest path is for an annuity insurer — with or without an internal long-term care insurance (LTCI) capability — to add an optional LTCI rider to one or more leading annuity products. (Note: Entirely different considerations would apply to selling annuities through an LTCI distribution network, an approach not covered in this discussion.)

Tailoring the product for current distribution means directly addressing two main concerns that advisors have about combo products: (1) potential loss of the annuity sale if underwriting reveals uninsurable conditions and the client is rejected for LTC benefits; and (2) losing credibility when they don't have sufficient LTCI knowledge/experience to address client concerns and questions.

The first of these issues — potential loss of the annuity sale — can be addressed by customizing the product with little or no underwriting on the basic LTCI rider. To overcome the resulting trade-off of "less underwriting means lower LTC benefits,"

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clients who want higher LTC coverage can opt for more extensive underwriting (where even if they do not pass further underwriting, they will still receive the LTC benefits of the original offer).

The second concern — annuity advisors' lack of LTCI knowledge — can be addressed through a combination of targeted training, simplified consumer communications, and appropriate hand-off during the application process. When a combo product is designed to follow the path of least resistance, the agent could have the option to transfer the LTCI portion of the case to a sophisticated structured selling system, which would be far less threatening than sharing the case with another agent (with compensation structured to reflect the writing agent's level of involvement in the LTCI portion of the sale). The client would simply have to indicate an interest in higher LTC benefits, and the entire discussion about better policy options/benefits could be turned over to a trusted group of LTCI specialists (internal or external) for handling and processing.

Assuming that these advisor concerns can be overcome with a carefully tailored product design and selling approach, annuity executives may then find themselves in a position to make high-level strategic decisions about if, when and how to move forward with a combo product. Considerations include:

- Conducting feasibility analysis to determine if/when to enter the combo annuity market and whether the company is better positioned as a first-mover or as a fast-followers;
- Whether/how to pilot the program initially with a select group of agents before a national rollout — and/or, whether to also test Web and phone-based sales support alternatives;
- Considerations about partnering with an established LTCI reinsurer/insurer, or outsourcing critical LTCI capabilities. There are several top-tier suppliers of LTCI services including agent training, underwriting and claims administration, and agent/consumer sales material development.

> "A CONSUMER-FRIENDLY LIFE-CI HYBRID PRODUCT COULD PROVIDE MEANINGFUL PROTECTION TO EMPLOYEES (WITH OR WITHOUT COMPANY-SPONSORED HEALTH INSURANCE) AND CAN BE OFFERED ON A VOLUNTARY OR PARTIALLY EMPLOYER-FUNDED BASIS."

Worksite life-CI hybrids

Along with developments in the combo annuity-LTCI arena, a parallel opportunity exists in the worksite market for a life-critical illness hybrid product. In the current transition toward implementation of health care reform, and as health insurance costs continue to rise dramatically, employers are looking for ways to reduce their benefit costs without leaving employees unprotected. A consumer-friendly life-CI hybrid product could provide meaningful protection to employees (with or without company-sponsored health insurance) and can be offered on a voluntary or partially employer-funded basis.

It's notable that CI was the fastest-growing voluntary benefit in 2009, nearly doubling sales over 2008 with 87.8% growth (as reported in the *Eastbridge Annual U.S. Worksite Sales Report*). What's more, packaging life-CI coverage together has none of the problems inherent in the annuity-LTCI combo, as they're both underwritten and easily understood by target audiences (and could even be submitted on the same application). Distributors who are now selling life products successfully in the workplace are in a strong position to collaborate with an insurer and/or experienced product developer in bringing these products to market in the near-term future.

Annuity-LTCI and life-CI combos are two new-product opportunities that directly address consumer concerns about losing/outliving their assets, while offering strong potential for growth in sales and profits. Addressing possible concerns and taking strategic action can create a path for forward-looking insurers and distributors who want to position themselves to take advantage of these emerging markets.

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