supervision from threats to health and safety due to a severe cognitive impairment—but in either case, with the condition expected to be permanent. When the Access Solution is triggered (after a 90-day elimination period) the policyholder can take 2%, 4% or up to the IRS per-diem maximum monthly (adjusted annually for inflation) of the policy death benefit to pay medical or virtually any other bills. There is no minimum number of years of pay-in required, Mallon said.

James Mallon

The third concern is common among baby boomers, the healthiest generation ever to retire: the risk of outliving assets. AG Asset Protector's second rider, the Lifestyle Income Solution, provides an answer.

Its premise is that healthy retirees who have made it to their 85th birthday can access their death benefit in a way similar to an annuity. Policyholders can draw down as much as 10% of their death benefit each year for 10 years; can stop at any time; and enjoy some of the drawdown tax-free.

Mallon's example uses a paid-up $1 million policy which the policyholder hasn't used for chronic illness care via the first rider. At 85, 10% of the death benefit, or $100,000 in this example, is available to the policyholder. If the entire 10% Lifetime Income benefit is used, the death benefit becomes $900,000. But in the first years of this option, the proceeds would be tax-free using cost-basis IRS rules, Mallon noted.

In his example, the paid-in premium of about $450,000 is the amount that can come out tax-free to the policyholder, according to IRS rules, before proceeds become taxable as ordinary income.

"If you knew you had this design backstopping you as a source of income at age 85, you could take out more than minimums from your 401(k) or IRA each year upon retirement, and not be afraid to whittle down that base," Mallon explained. "Because you know that when you get to 85 you have another income source. And that lets your 401(k) or IRA recharge, because you won't have to touch them."

Surveys Point to Need

Mallon said AIG market research helped shape the AG Asset Protector's design. "We've found that in 50% of married couples age 65, one spouse will live to at least 94, and 10% will live to 104 years old," he said. "And 61% in our survey are concerned about having financial peace of mind in retirement."

Asset Protector had a soft launch this past March and is available in all states except California and New York, he said. "We've got to do more of these things. I'm very proud of what the company has done."

Dianne Batistoni, a partner in the insurance group for EisnerAmper LLP, said the AIG offering is part of an emerging trend. AIG is not alone in offering "living benefits" but appears to have expanded the flexibility typically found in products of this type.

"As people are now living 20, 30 or even more years in retirement, the concerns are real," Batistoni said. BR

Retooling Long-Term Care Coverage

After the number of companies offering LTC coverage dwindled, Hannover Life Reassurance Company of America looked to help primary writers re-enter that market.

by Angelo John Lewis

According to the Federal Interagency Forum on Aging-related Statistics, 40 million people age 65 and older accounted for 13% of the U.S. population in 2010, a figure that's expected to jump to 72 million people, or 19% of the population, by 2030. Even more significantly, the number of people age 85 and older—who are most likely to need long-term care—is projected to grow from 5.5 million in 2010 to 8.7 million in 2030, and to 19 million by 2050.

Those demographic trends and other industry factors led Hannover Life Reassurance Company of America (HLR America), a member of the Hannover Re Group, to develop its life/long-term care suite of solutions.

Scores of insurers offered long-term care insurance during the 1980s and 1990s. But by the end of the previous decade, primarily because of inaccurate pricing and declines in interest rates, many carriers concluded that they couldn't make a profit from these products and left the industry.

According to a study sponsored by the U.S. Department of Health and Human Services' Office of Disability, the number of companies selling long-term care declined from 102 in 2002 to roughly a dozen companies by the end the decade.

As carriers' commitment to stand-alone long-term products dwindled, a new generation of life/long-term care combination products emerged. According to LIMRA, new sales premiums for 2013 marked the fifth consecutive year of double-digit, year-over-year growth for this emerging category, in which insurers pay benefits when the insured meets certain criteria for chronic illness or long-term care. If the insured never meets these criteria, benefits are given to the policy's beneficiary.

"These products are beginning to close the LTC protection gap for Americans, which is a vital piece of creating a secure financial future."

—Tony Laudato,
Hannover Re America

Despite the success of these products, there remains a significant need for long-term care coverage. Only 10% of the elderly are covered by private long-term care insurance, according to the National Bureau of Economic Research.

Hannover Life Reassurance Company of America, a member of the Hannover Re Group, believes primary life insurers may want to offer LTC coverage but lack the morbidity expertise and operational infrastructure to support the LTC aspect of policy benefits and claims. To serve these companies, the reinsurer has partnered with LTCG, a provider of business outsourcing to the LTC industry, to create what it calls a "one-stop shop" approach that will help prospective carriers get into the LTC hybrid business.

In addition to reinsurance protection, the Hannover Re-LTCG offering provides a comprehensive risk management solution that includes product development and state filing, simplified underwriting via telephonic assessments, underwriting and claims management expertise.

"What's unique about it is that they're taking a novel approach to increase their market share of reinsured life premium."

—Jim Glickman,
LifeCare Assurance Company

"What's unique about it is that they're taking a novel approach to increase their market share of reinsured life premium. They are doing this by accepting the long-term care portion of the premium from life/LTC hybrid products, which other traditional reinsurers really do not want," said Jim Glickman, chairman, president and CEO of LifeCare Assurance Company, a reinsurance company.

Without the predictable profits of the life insurance risk, reinsurers are not willing to reinsure the less-predictable LTC risk, especially because it represents a small portion of the combined hybrid product premium, Glickman said.

The Hanover Re America service addresses this by providing primary insurers a comprehensive suite of services as a means of sharing risks and profits of both the life and LTC segments. As a separate service, primary insurers can also utilize a single reinsurance treaty rather than separate ones that address individual risks or services. These include the business processing outsourcing needs that are the specialty of LTCG.

Along with the newly developed reinsurance structures, the company plans in February 2015 to launch a new underwriting manual specific to the life/LTC hybrid market. This manual will leverage the expertise from Hannover's mortality database and LTCG's current LTC underwriting guide that contains 600,000 life-years of claims experience and 9 million life-years of underwriting history over a 14-year period.

According to Tony Laudato, vice president, marketing actuary of Hannover Re America, this approach "enables insurers to significantly grow their top and bottom lines while effectively managing their overall risk profile by leveraging the expertise developed through our partnership with LTCG. These products are beginning to close the LTC protection gap for Americans, which is a vital piece of creating a secure financial future." BR