

life annuity specialist

Hybrid Annuities

A Niche Annuity May Be Ready to Break Out as America Ages

By Warren S. Hersch March 15, 2021

OneAmerica has been selling a special kind of annuity that's generating double-digit sales each year, and it doesn't have much competition either.

Global Atlantic and **Guaranty Income Life** are also active in this market segment, providing a product that could prove crucial to a large number of Americans who will need help caring for themselves in their twilight years.

The niche products are fixed-rate or fixed-indexed annuities that come with a long-term-care benefit. They qualify as tax-favored long-term-care insurance under the 2006 Pension Protection Act and differ from annuities featuring riders or waivers that offer policyholders a higher withdrawal amount if they're confined to a nursing home, which don't get the same tax advantages.



*Todd Giesing, senior annuity
research director, Secure Retirement
Institute*

Sales of long-term-care annuities from 2017 through 2019 have hovered between \$550 and \$575 million, according to **Todd Giesing**, annuity research director with the **Secure Retirement Institute**. They make up a fraction of the overall industry, less than 1% of more than \$200 billion in annual sales of all kinds of annuities.

Barriers to Sales

What seems like an alluring market opportunity waiting to be exploited may not be so easy to capitalize on though.

For one, Giesing says there's limited distribution for the offerings and competition from life insurance products that also offer long-term-care benefits, which have generally been more robust. The more mature life segment generated \$4.8 billion in new sales premiums in 2019, he notes.

The long-term care annuity's complex product design and limited share of sales "has kept carriers out of this market or more focused on offerings on the life insurance product side," he says in an email.



Paula Nelson, co-head of individual markets at Global Atlantic

Other hurdles include getting new products approved from state insurance and health departments, according to **Paula Nelson**, co-head of individual markets at **Global Atlantic**. Also, agents wanting to sell the annuities must get life and health insurance licenses and, in some jurisdictions, long-term-care certifications.

"Consumers can't go and just buy these products," she says. "They have to work with a financial professional and that financial professional needs to be educated and trained on how they work," she says.

Evan White, a divisional VP for brokerage care solutions, at **OneAmerica**, says other annuity carriers aren't set up to support underwriting and claims for the combination products. And they're not prepared to invest in these capabilities — at least not until interest rates rise enough to make the effort worthwhile.

Jesse Slome, director of the **American Association for Long-Term Care Insurance**, agrees.

"Combining traditional fixed annuities with a long-term-care benefit has been a non-starter in a low-interest rate environment," he says.

Carriers active in the market may be facing headwinds. **Jonathan Summers**, a senior marketing consultant with **Senior Market Sales**, says he doesn't see benefits for hybrid products becoming richer due carriers' uncertainty on pricing and inflationary costs.

Market Potential

The need for long-term-care coverage is becoming more apparent as America ages. Some 10,000 baby boomers will be turning 65 daily through 2030. And seven in 10 of them will require long-term care in their lifetime, according to new research from **Genworth Financial**.

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Long-term-care costs vary widely, depending on location and level of care required. The median monthly cost for assisted living is \$4,300. The cost for homemaker services is \$4,481, and for a home health aide, \$4,576. People who need fully private rooms can be expected to cough up \$8,821 per month, the research shows.

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have been taxable on the old annuity — for example a \$75,000 gain generated on a \$100,000 premium — won't be taxable when distributed from the new policy to pay for long-term care expenses.



Jeff Levin, a divisional VP for care solutions at OneAmerica

Long-term-care annuities come with some built-in benefits for consumers. Since 2010, buyers of the products have been able to pay for tax-qualified long-term-care expenses through withdrawals from the contracts without incurring income tax. The annuities must be funded though with after-tax or non-qualified money.

Contract holders can also exchange a conventional guaranteed income product for a long-term-care annuity on a tax-free basis. Growth on invested amounts that would

Buyers can also do a partial exchange from a non-qualified annuity — if the issuing insurer will sign off on the transaction.

“Sometimes, the previous carrier will allow that and sometimes they won't,” says **Jeff Levin**, a divisional VP for care solutions at OneAmerica.

Underwriting guidelines also are more lenient than they are for hybrid life-long-term-care products. Applicants for the annuity combination products can generally secure coverage at older ages and they need submit only to a phone interview.

“These solutions are easier to qualify for medically compared to some of the life-based products out there,” says OneAmerica's White.

That difference may be crucial to people with pre-existing conditions who, though declined for a life product, can still be approved for an annuity carrying long-term-care coverage, he adds.

New Features, Benefits

Carriers have rolled out product innovations that build on these advantages.

OneAmerica's single-premium Annuity Care products offer an option that lets a buyer add a spouse to the contract, creating a jointly held policy. An option can be selected that will guarantee a lifetime payout, subject to a monthly maximum, for long-term-care expenses.

A continuation of benefits rider for one of the products, Annuity Care II, doesn't require an additional premium but lets the policyholder secure two-and-one-half times the premium paid. So, for, example, a \$200,000 premium can pay out \$500,000 to cover long-term expenses.



*Evan White, a divisional VP for
brokerage care solutions, at
OneAmerica*

A recent addition to the product suite is a fixed-indexed annuity that ties cash value growth to the S&P 500 Index. OneAmerica's White says the indexed product is unique in the market.

Slome, of the American Association for Long-Term Care Insurance, said he expects to see many companies take similar approaches as they see financial advisors and investment professionals who have been hesitant about earlier long-term-care products start to favor the newer concepts.

More product benefits are in the works.

"We're looking at things to make the care experience easier and more seamless on the insured and their family," says White. He cites, for example, services that would ease in-home care.

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