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LIMRA Study Shows Life Combination Products in Double-Digit Growth Pattern

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Introduction

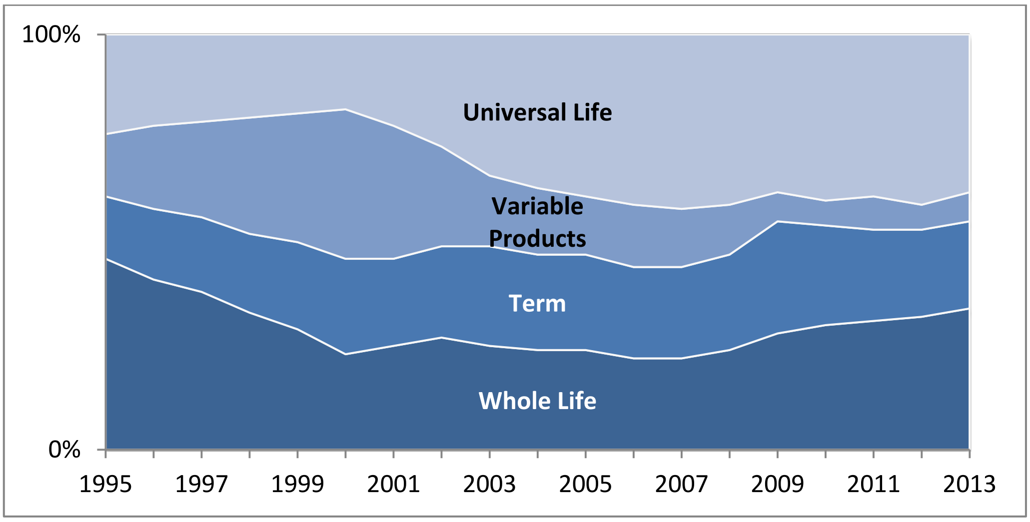
Over the past seven years, LIMRA has been tracking annual sales of life combination products, a subset of the U.S. individual life insurance market. New sales premiums for 2013 marked the fifth consecutive year of double-digit year-over-year growth. Life combination products are defined as life insurance products that pay benefits when the insured meets certain criteria for chronic illness or long-term care. Benefits are also potentially payable to the beneficiary upon death if the insured never meets the chronic illness or long-term care criteria, or did not exhaust all the benefits.

With individual life sales declining in 2008 and 2009 due to the U.S. financial crisis and economic recession, recent double-digit growth in total new premiums for life combination products has made them a hot topic.

History

Life combination products have been available for several decades. A few select carriers offered these products prior to the 1990s, but growth did not happen until more recently. While it is and was a great product at the time, market conditions were not ideal for life combination products. Individual life sales in the late 1990s were dominated by variable universal life (VUL) products, with buyers taking advantage of the aggressive stock market growth. It was a bull market in conjunction with unusually low interest rates, making VUL products much more attractive compared to other life insurance products. Sales drastically declined after the burst of the dot-com bubble. Within three years, sales were half of what they had been at the peak. Both carriers and agents moved away from variable products in favour of universal life products.

Figure 1. Individual life sales—new annualised premium market share



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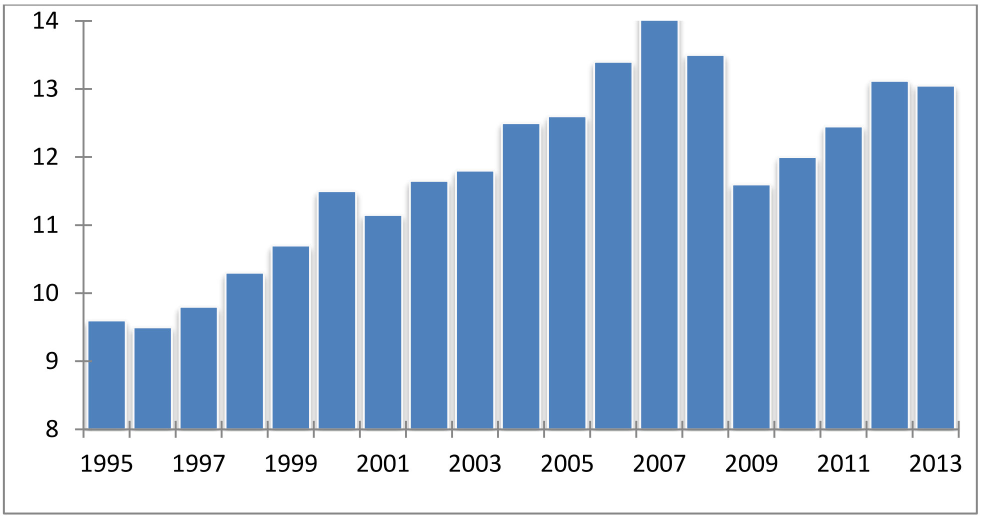
Shortly after the fall of VUL, lifetime or secondary guarantee universal life (UL) products gained popularity. With interest rates still low and equity markets stabilised, the pricing of lifetime guarantee UL among carriers became fierce. The low pricing of lifetime guarantee UL, a flourishing U.S. economy, and the uncertain future of estate tax regulations helped pushed life insurance sales to their peak in 2007. During this time period, stand-alone long-term care insurance (LTCI) was also thriving. The Federal Long Term Care Insurance Program was created in the early 2000s. Then, in 2006, the Deficit Reduction Act allowed all 50 states to roll out LTC partnership programmes.

Figure 2. Individual life sales—new annualised premium (US$ billions)



While life combination products grew during this period, they did not keep pace with other products. The turning point occurred during the financial crisis of 2008 to 2009; individual life insurance sales declined in 2008 and then plummeted in 2009 back to what they had been in the early 2000s after the dot-com crash. Consumers became weary of complex financial instruments and opted for simple, straightforward life insurance products.

Long-term care insurance sales also suffered during the financial crisis. The decline of LTCI sales started a few years prior when LTC insurers issued premium rate increases repeatedly over several years. The frequent premium rate increases generated consumer uncertainty towards LTCI carriers. This brought about a market of potential LTCI buyers who were "on the fence" about buying the insurance due to the cost and potential premium rate increases.

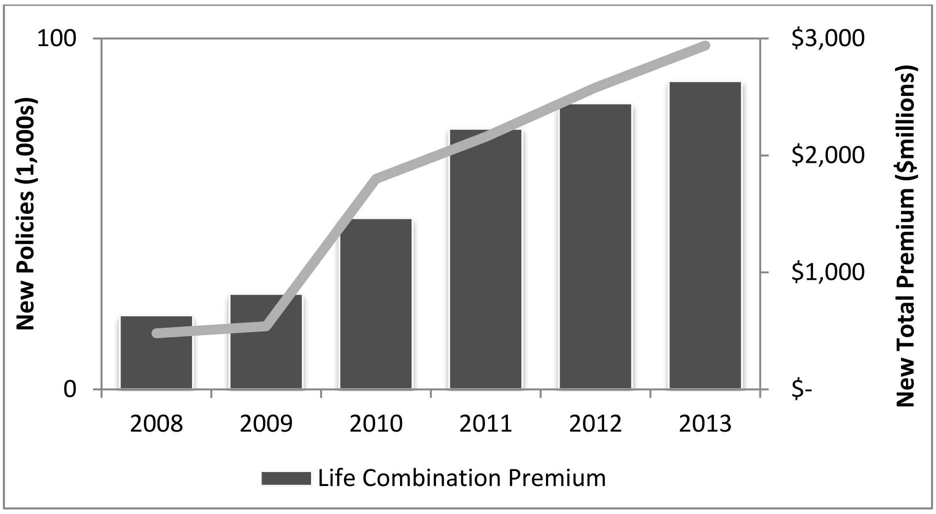
These events coalesced to form an ideal setting for the growth of life combination products. Many of the early products were fairly simple and clear-cut compared to other life insurance products. With life combination products, the need for LTCI is hedged. LTCI shoppers who worry about the possibility of not utilising the long-term care benefit are more satisfied with life combination products.

Another factor that further contributed to the growth of life combination products was the Pension Protection Act, which, starting in 2010, allowed for tax-free funding of LTCI when combined with life insurance or an annuity. This regulation also clarified the tax status of long-term care benefits from life combination products.

Combination products

Life combination products have experienced double-digit growth in the last five years. More than seven carriers have entered the market during this time and more are expected to in the near future. Total new premiums for 2013 reached US$2.6bn with just under 98,000 policies sold. Shortly after the tax clarification from the Pension Protection Act (2010), new products and new carriers began entering the life combination market.

Figure 3. Life Combination products sales—new total premium (US$ billions) and policies (1,000s)



There are two distinct products within the life combination space: acceleration riders and extension of benefit riders. The most prevalent products (by number of policies sold) are the acceleration riders, where the death benefit from the life insurance is withdrawn for long-term care or chronic illness needs. More recently, due to the increase in carriers adding this rider to their product lines, the acceleration rider has developed into a "must have" for many agents. While the main objective of the sale is life insurance coverage, the added feature of the acceleration rider has been beneficial both from an agent and a consumer perspectives.

To promote the long-term care benefits of life combination products, stand-alone LTC has often been positioned as a "use it or lose it" proposition. LIMRA's past survey results have shown that the idea of life combination products resonates strongly with consumers. But once costs are figured in, the concept loses some of its lustre.

Table 1 compares the average annualised premium and benefit amounts for stand-alone LTC and life combination products based on LIMRA's *2011 ILTCI Sales Survey & Supplement* and *2012 Life Combination Survey*. Stand-alone LTC, by far, provides the cheapest LTC coverage. The key difference for stand-alone LTCI buyers is that a high number of them do expect to use the LTC benefits. While buyers for life combination products place more weight on the life insurance benefit.

Table 1. Average premium and benefit for LTC and life combination products

Consumers who feel <u>more</u> at risk for LTC

Consumers who feel <u>less</u> at risk for LTC

	Average Annualised Premium	Average Monthly Benefit/Life Death Benefit	Total Max. LTC Benefit
Stand-alone LTCI	$2,400	$5,000	$420,000*
Life combination —Extension of benefits	$6,950**	$109,000	$327,000**
Life combination —acceleration	$6,600	$326,000	$326,000

* Average LTC benefit based on $5,000 monthly benefit for seven years
** Annualised premium is 10% of single premium. Max. LTC benefit assumed to be three times the death benefit

Conclusion

At current sales levels, life combination products represent approximately 8 per cent of the U.S. individual life insurance market. Because of the sizable portion of single premium payments in life combination products, total premiums is used as a measure rather than annualised premiums. By contrast, annualised premiums is the standard measure for LIMRA's *U.S. Individual Life Sales Survey*.

LIMRA's *2013 U.S. Individual Life Combination Products Survey* consisted of 19 contributing carriers. While most carriers offer a LTC rider on one product, there is a growing trend to offer the riders on more products in the life insurance portfolio. As consumers increasingly understand the financial necessity of LTC insurance, life combination products could eventually become a permanent fixture for individual life insurance in the U.S.