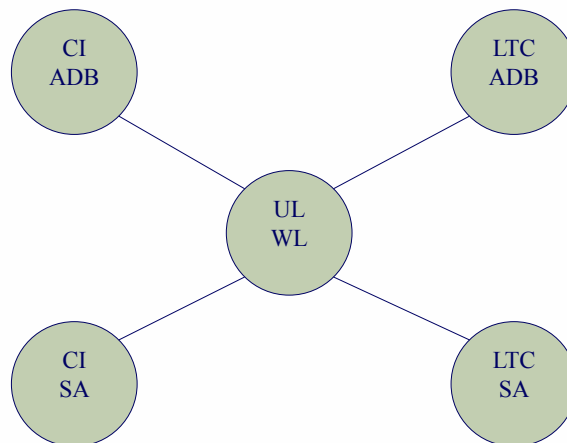


## Southeastern Actuaries Conference: Combo Product Pricing

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## Combo Product Pricing



## Acronyms

- CI = Critical Illness
- LTC = Long Term Care
- ADB = Accelerated Death Benefit
- EOB = Extension of Benefits
- DB = Death Benefit
- YRT = Yearly Renewable Term
- ADL = Activities of Daily Living
- NH = Nursing Home
- HC = Home Care
- ALF = Assisted Living Facility

## Critical Illness

Lump sum benefit for

- Cancer
- Heart Attack
- Stroke
- Major Organ Transplant
- Kidney Failure (End Stage Renal Disease)
- Loss of Sight, Hearing, Speech
- Carcinoma in-situ
- Coronary Artery Bypass Graft

## Critical Illness

Money used for

- Gaps in medical insurance
- Loss of income
- Travel
- Home modification
- Debt payments
- End of treatment reward
- “Man Cave”

## Critical Illness

Today's CI health product

- Worksite
- Issue age in late 40's
- Guarantee issue
- Benefits reduce or terminate
- 50-55% loss ratios
- Increasing sales

## Long-Term Care

Today's LTC health product

- NH, ALF, HC expenses paid
- Daily benefit amount
- Benefit trigger, i.e. 2 of 6 ADLs
- Benefit period or pool of money
- Inflation protection
- Rate stabilization
- Issue age in 60's
- Restoration of benefits

## Combo Products

- LTC with UL or Whole Life
- CI with UL, Whole Life, or Term
- Extension of Benefits
  - Preserves the life insurance benefit
- Acceleration
  - Less expensive
  - Less regulation

## Stand Alone Rider

- Filed as a health rider
- Preserves death benefit
- Leverage life insurance underwriting
  - Need additional questions
- Lower expenses mean
  - Higher profits,
  - Higher commissions, or
  - Lower premiums

## Stand Alone Rider

- Critical illness loss ratio
  - 50% or 55% in most states
  - Florida and Maryland 60%
- Long-term care rate stabilization
  - Except Georgia, Maryland, South Carolina
  - 60% loss ratio

## Acceleration Rider

- Filed as a life rider
- Payments reduce death benefit / cash values
- Less expensive (like EOB rider)
- Lower loss ratio
- Lower utilization
  - Incentive to keep death benefit intact
  - CI doesn't pay on death

## Acceleration Rider

- Death benefit savings
- Mortality change
  - Death from heart attack
  - CI payment for loss of hearing
  - Most CI/LTC events in between
- Calculate net single premium
  - Disabled life mortality

## Rider Design

- CI pays % of DB in one lump sum
- LTC pays % of DB in monthly payments
- <100% DB, 100% DB, >100% DB
- YRT (attained age) rates allowed
- Level charges common

## Taxation

- ADB may be treated favorable for taxes
  - 101(g) – Terminal Illness
  - 104(a)(3) – Critical Illness
  - 7702B – Chronic Illness (LTC), per diem limits
- EOB LTC favorable if
  - “Tax Qualified”
    - 2 of 6 ADL, cognitive impairment
    - At least 90 day claim
- EOB CI favorable if
  - Premium paid with after tax dollars

## Critical Illness

Issues with CI health products

- Low face amounts
- Limited underwriting
- Complicated benefit design

## Long-Term Care

Issues with LTC health products

- Low lapses and mortality
- High morbidity
- Rate stabilization
- Higher premiums



## Advantages to Combo Products

- Less anti-selection
- Leverage underwriting / expenses
- Benefit / risk diversification
- Distribution
  - Younger ages
  - More males
- Higher lapses / mortality

## Disadvantages to Combo Products

- More complicated product
- Administration system limitations
- Death benefit reduced when insured is no longer insurable
- Agent needs life and health knowledge

## Advanced Topics

- Death benefit guarantee
- Partial acceleration
- Premium per
  - Net amount at risk
  - Face amount

## CI / LTC Riders to Life Insurance

**Questions?**

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