Life / LTC Linked Benefit Products

Pricing and Risk Mitigation

Tony Laudato - Vice President FSA, MAAA
Hannover Re America

Actuaries' Club of the Southwest
June 25-26, 2015 - Galveston, TX

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Agenda

- Product Overview
  - Product Options and Benefits
  - How Do the Products Work and What do They Cover?
  - Why are These Products Gaining Traction in the Market?
  - Recent Sales Figures
- Key Assumptions
  - Mortality
  - Morbidity
  - Lapse
- Pricing Techniques
  - Active and Disabled Population
  - Expected Benefits
  - Policy Dynamics
  - Profit Implications

Product Overview

Product Options and Benefits

LTC/Life Linked Benefit Products

- Provides integrated Death Benefit and Cash Value protection covering chronically ill individuals
  - Typically a standard LTC 2/6 ADL Definition)

- Structured to pay benefits beyond the acceleration of the Life Insurance policy Death Benefit through a linked Extension of Benefit ("EOB") rider for qualifying LTC claims
  - Reimbursement Dollar-for-Dollar Face Reduction Approach
  - Indemnity Dollar-for-Dollar Face Reduction Approach

- Mix of Life Insurance (acceleration component) and Individual LTC (EOB component)
  - Governed by Section 7702B and the LTC Model Act

- Marketed as an Alternative to Stand-Alone LTC

Product Options and Benefits
LTC/Life Linked Benefit Products

Product Rider Options

- Face Amount Acceleration Rider
  - 2 or 3 year acceleration period
- Extension of Benefits Rider
  - Generally 2 to 5 years
- Inflation Protection Rider
  - 3% and 5% Simple
  - 3% and 5% Compound
  - The 5% Compound Option must be offered under LTC regulations
- Return of Premium Rider/Feature

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Why are These Products Gaining Traction in the Market?

Client Need – Review of Long Term Care Costs

Nursing Home (NH), Assisted Living Facilities (ALF), Home Health Providers (HHP)

Area	Private Daily Rate (NH)	Semi-Private Daily Rate (NH)	1 Bedroom Monthly Rate (ALF)	2 Bedroom Monthly Rate (ALF)	Studio Monthly (ALF)	HHA Hourly Rate (HHP)	RN Hourly Rate (HHP)	LPN Hourly Rate (HHP)
2012 National Averages	$262	$229	$3,694	$3,400	$3,435	$19	-	-
2013 National Averages	$262	$228	$3,512	$4,474	$3,572	$22	$66	$51
% Change (‘12 to ‘13)	0%	0%	-5%	25%	4%	14%	-	-
2013 Annual Costs	$95,706	$83,114	$49,669	$53,691	$42,864	$17,248	-	-

Key Statistics

- The median age of Nursing Home residents is 82.7 years old; 66% are Female
- Nearly half (46%) of Nursing Home residents die within 28 months of admission
- The average length of time since admission for Nursing Home residents is 27.5 months
- The median age for Assisted Living residents is 86.9 years old
- The median length of stay for Assisted Living Residents is 25.6 months
- 79% of Home Health Care Agencies provide Alzheimer’s training to their employees
- Nearly one-third (31%) of Home Health Care recipients die within 28 months of initial care

Sources: LTCG Cost of Care Survey 2013
LifePlans : *Cognitive and Functional Disability Trends for Assisted Living Residents – March 2009*
CDC : *The National Nursing Home Survey: 2004 Overview – June 2009*

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Why are These Products Gaining Traction in the Market?
Client Need – Marketing Story

- Products market away from the most common objection to stand-alone LTC products: it is a "use it or lose it" sale:
  - Provides integrated Death Benefit and Cash Value protection features
  - Typically includes a Return of Premium Feature
- Products are generally marketed to those who have decided to self-fund their LTC needs
  - If the client does not own stand-alone LTC, they **ARE** self-funding
- Products can help client leverage the assets they are allocating to LTC protection need
  - Linked Benefit Rider** Average Premium: $85,000
    Average Face Amount : $152,000
    Potential Additional EOB Coverage : $304,000
    Total Potential Coverage : $456,000 (**~5.4x Leverage**)
    Provides benefits over a minimum 6-year period

Source : *LIMRA Individual Life Combination Products – 2014 Annual Review*
** - *Linked Benefit Averages based on Single Premium Products*

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Why are These Products Gaining Traction in the Market?

Client Need – LTCI Leverage

Monthly LTC Benefit: $6,333

Total Leverage: 5.4x

Leverage impact

For LTC combo products

Premium

$85,000

$152,000

Total Accelerated LTCI Benefit or

Tax-Free Face Amount

$76,000
Year 1

$76,000
Year 2

$304,000

(2x Face Amount)

Total 4 Years

LTCI Extension Benefit

$76,000
Year 3

$76,000
Year 4

$76,000
Year 5

$76,000
Year 6

Source : *LIMRA Individual Life Combination Products – 2014 Annual Review*

** - *Linked Benefit Averages based on Single Premium Products*

Why are These Products Gaining Traction in the Market?

Product Risk Profile

- Life / LTC Linked Benefit Products are not “Stand-alone LTC”
  - Combination of mortality and morbidity risks result in a natural hedge providing a degree of embedded risk management versus stand-alone LTC
  - The Extension Rider is the equivalent of a limited benefit LTC policy with a 2 or 3 year elimination period
    - Maximum benefit period is typically 6-7 years
    - Acceleration Rider must be exhausted before Extension Rider is used
    - This product is not available in the stand-alone LTC market and is more efficient given the “effective” elimination period
- Products have lower expected claims incidence
  - Policyholder must decide to use their own money first for the first 2 to 3 years of claims via the Acceleration Rider
  - Expected to result in lower LTC claims costs to insurance company

Recent Success
2014 Sales Results – Individual Life Combination Products

- Total Premium : $2.4B*
  - Total Premium declined from 2013 due to shift to multi-pay from Single Pay
  - Not hybrid product specific, seen across industry given low interest rates
  - Represents 12% of Total Individual Life Premium
  - ~100,000 Policies Issued (4% growth)
- Average Premiums remained stable over 2013
  - Single Pay : Increased by 5% to $85,000
    Average Face - $152,000
  - Recurring Premium: Decreased by 2% to $8,700
    Average Face - $340,000
- Aggregate Long Term Care Solutions (stand-alone LTC, Hybrid Life, and Hybrid Annuities) accounted for $3.2B in sales on roughly 230,000 lives
- Life Combination products account for a majority of the premium, but less than half the lives

Sources: *LIMRA Individual Life Combination Products – 2014 Annual Review; includes Life with LTC Acceleration, Life with LTC Extension and Life with Chronic Illness Acceleration*

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Key Pricing Assumptions

Major Assumptions

- Three Major Assumptions Need to be Considered:
  - Mortality
  - Morbidity
  - Lapse

- Each Plays a Critical Role in the Development of Expected Claims

- Considerations for Each Assumption:
  - Underwriting
  - Product Design and Marketing
  - Policy Size
  - Overlap with Other Products
  - Target Market

Major Assumptions
Assumption Profiles

- Mortality Profile
  - Total Population Mortality
  - Active Life Mortality
  - Disabled Life Mortality

- Morbidity Profile
  - Incidence Rates
  - Termination Rates
  - Underwriting Selection Factors
  - Salvage factors

- Lapse Profile
  - Due to Interplay Between Mortality and Morbidity Assumptions, Lapse is a Key Factor

Key Questions to Ask

Key Questions to Ask
Mortality Assumption

- Underwriting
  - Are there additional underwriting requirements (cognitive testing, prescription drug checks, motor vehicle reports, etc.) and questions on the application due to the addition of the rider?
  - What impact does this have on the mortality profile of the base product?
  - Do the maximum issue ages of the product change?
  - What is the source of the Disabled Life Mortality table? Is it aligned properly with the business being sold?
  - How will the Active Life Mortality assumption be developed?

- Product Design and Marketing
  - Does the addition of the rider change the expected level of anti-selection in the product?
  - Are the lapse rates expected to change with the addition of the rider impacting mortality deterioration?
  - Is there a new simplified sales process? Will this attract more unhealthy lives?
  - Does the addition of the rider encourage more short-pay, asset accumulation sales?

Key Questions to Ask
Mortality Assumption

- Policy Size
  - Does the addition of the rider change the expected distribution of business by band?
  - What is the maximum face amount policy that the rider will be added to? How does this change the overall mortality profile?

- Overlap with Other Products
  - What products will the rider be added to?
  - Does this determination drive certain segments of population to alternative products adjusting the risk profile of multiple products in the portfolio?
  - Can the rider be added after issue? What impact would that have on the base product mortality profile?

- Target Market
  - Will the addition of the rider attract a different population to the base product (i.e. Sex, Socio-Economic, etc.)? What impact does this have on the mortality profile of the base product?

Key Questions to Ask
Morbidity Assumption

- Underwriting
  - What information will be gathered in the rider underwriting (i.e. Tele-Underwriting, Medical Information, Bureau Screen, Prescription Drug Screen, Motor Vehicle Report, Cognitive Testing, APS Reports, etc.)?
  - Has a “Field Underwriting” guide been established with a series of knock-out questions for the rider?
  - How long is the expected LTC underwriting selection period?
  - How will underwriting selection factors be developed (i.e. Age, Sex, Policy Duration, Band, Class, Marital Status, etc.)?
  - What is the maximum sub-standard table that will be issued?

- Policy Size
  - What is the maximum face amount the rider will be added to?
  - What is the maximum amount per month that can be accelerated?
  - Are the rider maximums in-line with HIPAA limits?
  - Can acceleration amounts exceed the HIPAA limit?

Key Questions to Ask
Morbidity Assumption

- Product Design and Marketing
  - Does the rider provide reimbursement or indemnity benefits?
  - What are the benefit triggers?
  - Over what period of time does the rider accelerate benefits?
  - What is the elimination period for the benefits? Is it the same for all eligible benefits?
  - Is the product tax qualified?
  - Will a licensed health care practitioner certify benefit eligibility?
  - What will be the criteria for establishing eligibility requirements for any international coverages?
  - For reimbursement benefits, what is the appropriate amount of salvage to factor in?
  - Who will be handling claims processing?

Key Questions to Ask

Lapse Assumption

- Product Design and Marketing
  - Does the addition of the rider change the expected lapse rates of the base product?
  - Will there be any expected lapses for policies “on-claim”?
  - Are there any “return of premium” features included in the design that will impact lapse rates?

Key Questions to Ask

- Assumption Development is More Complicated than a Typical Life Product

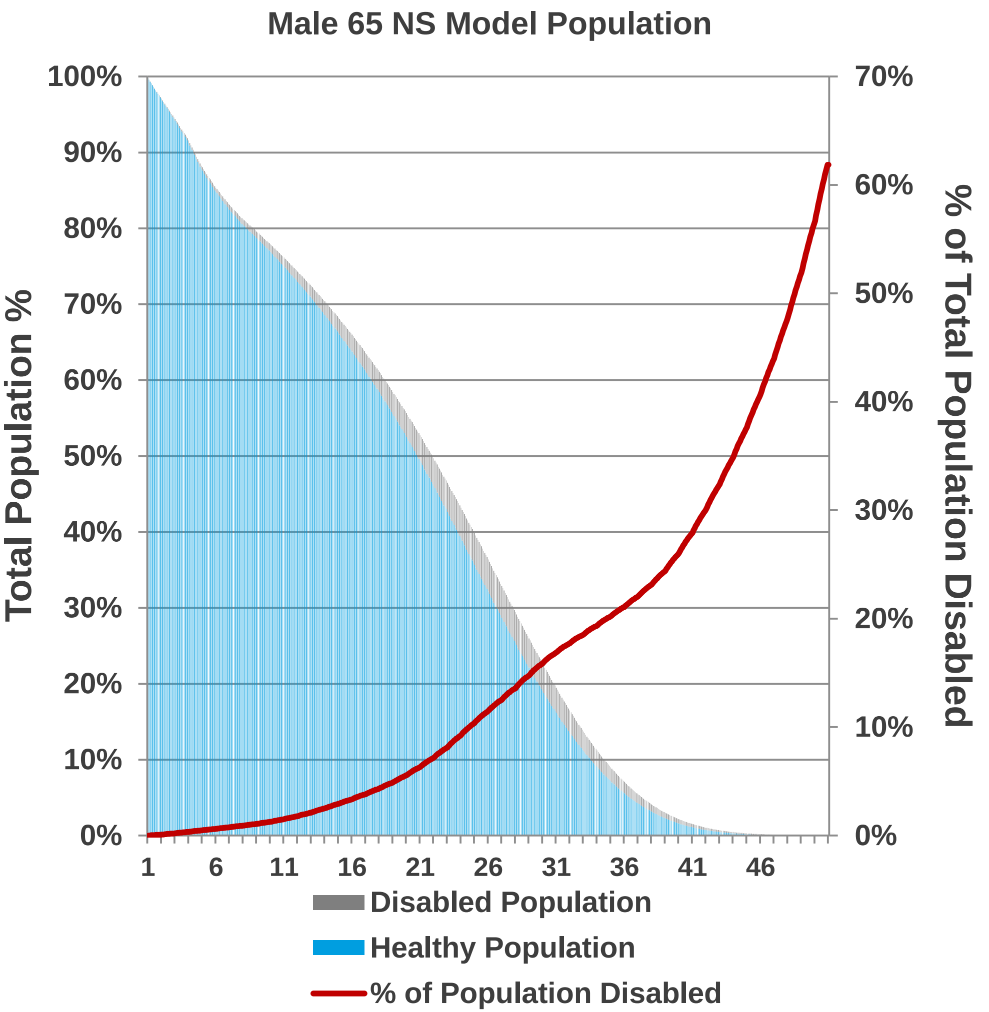
- Developing an Understanding of the Interplay Between the Assumptions is Critical
  - What Combination of Assumptions Produces “Poor” Results?
  - What Combination of Assumptions Produces “Good” Results?

Pricing Techniques

Pricing Techniques

Active and Disabled Populations

- Over time, the disabled population makes up a significant portion of the total population, shifting ultimate mortality benefits from the base policy to acceleration morbidity benefits of the rider



Sample UL Product with $100,000 face amount and premiums to fund positive cash value at age 100. Chronic Illness Acceleration Rider pays 1/24th of the Face Amount each month over a 24 month period. Policy Death Benefit equals Face Amount in all Durations.

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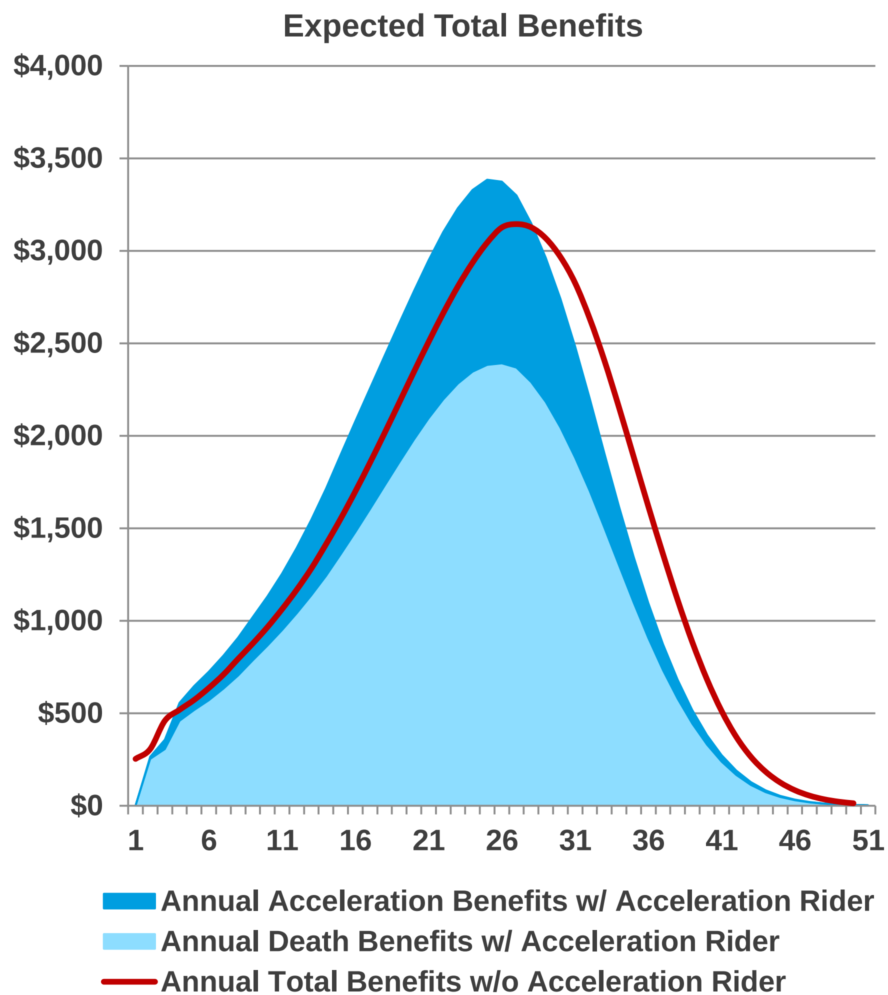
Pricing Techniques
Expected Benefits

- Total benefits paid over the lifetime of the policy will not change, but the characterization and the timing of the benefits will be different
- For a sample UL product, more than 25% of the total benefits paid will shift from mortality benefits to acceleration benefits by the addition of the rider
- On a present value basis, the shifting of benefits forward has a pronounced impact (+18.8%)



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Pricing Techniques
Policy Dynamics

- As the face amount of the policy is accelerated, a reduction to the policy account value will also be required
- For example, if the monthly claim amount for the sample policy is $4,167, there will be changes that occur to the policy's Face Amount, Account Value and Net Amount at Risk

Insurance Component	Pre-Claim	Post Claim	Change Due to Claim Payment
Claim Amount(t)	$4,167		
Face Amount(t)	$100,000	$95,833	$4,167
Account Value(t)	$13,959	$13,377	$582
Net Amount at Risk(t)	$86,041	$82,456	$3,585
Claim Amount Paid from Net Amount at Risk(t)	$3,585		
Claim Amount Paid from Account Value Reduction(t)	$582		

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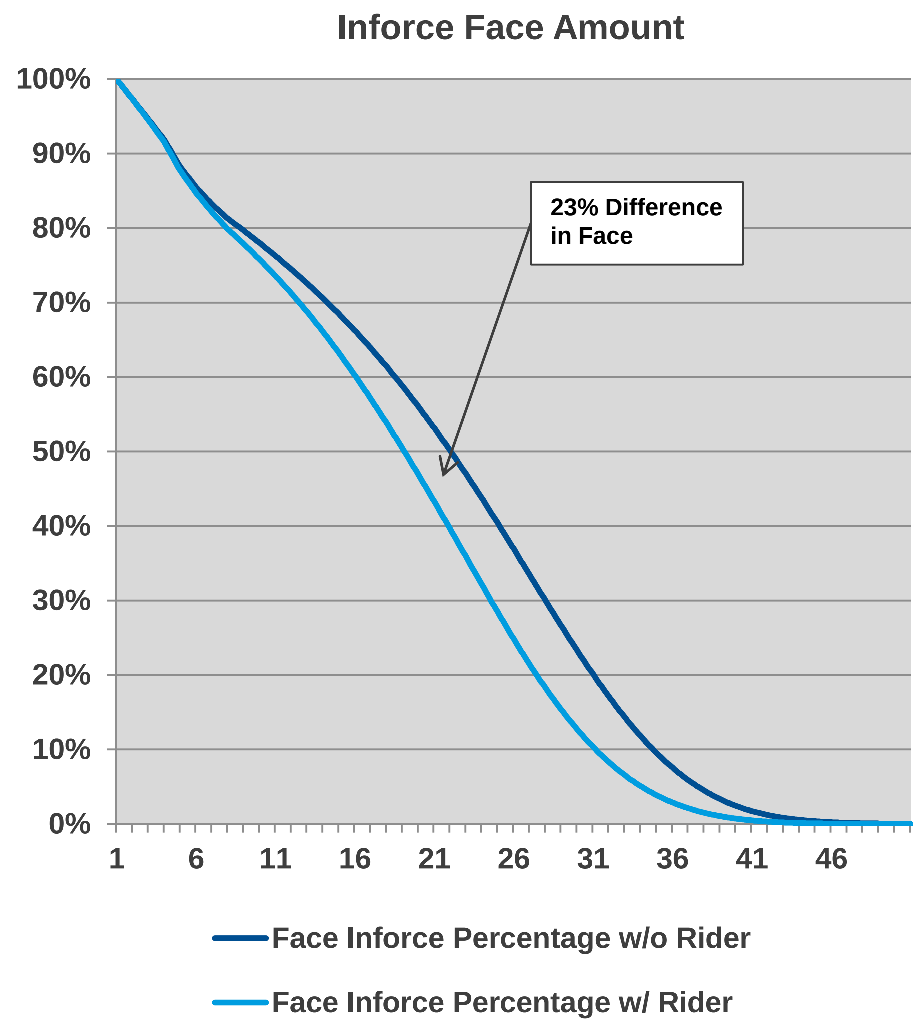
Pricing Techniques
Policy Dynamics

- Due to the acceleration claim activity, there is a significant difference in the inforce face amount in the model population remaining after 20 years
- The combination of adjustments to the policy face amount and account value from the acceleration claims also impacts the policy's net amount at risk
- By the end of duration 20, there is an 8% reduction in net amount at risk growing to 43% by the end of duration 30 when compared to the base policy without the rider



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Pricing Techniques
Impact to Profitability

	Present Values Discounted at 10%				Profit Metrics	
	Total Benefit Payments	Claim Amounts Paid from Net Amount at Risk	Insurance Charges Collected*	Insurance Profit	Insurance Margin	Benefit to Insurance Charge Ratio
	(1)	(2)	(3)	(4)=(3)-(2)	(5)=(4)/(3)	(6)=(2)/(3)
Base Policy Only	$10,863	$7,535	$8,665	$1,130	+13.0%	87.0%
Base Policy and Acceleration Rider	$12,910	$9,179	$7,979	-$1,200	-15.0%	115.0%
Difference ($)	+$2,047	+$1,664	-$686	-$2,330		
Difference (%)	+18.8%	+21.8%	-7.9%	-206.2%		

- Changes to the universal life policy net amount at risk from the acceleration claim payments are what will ultimately drive the changes to profitability

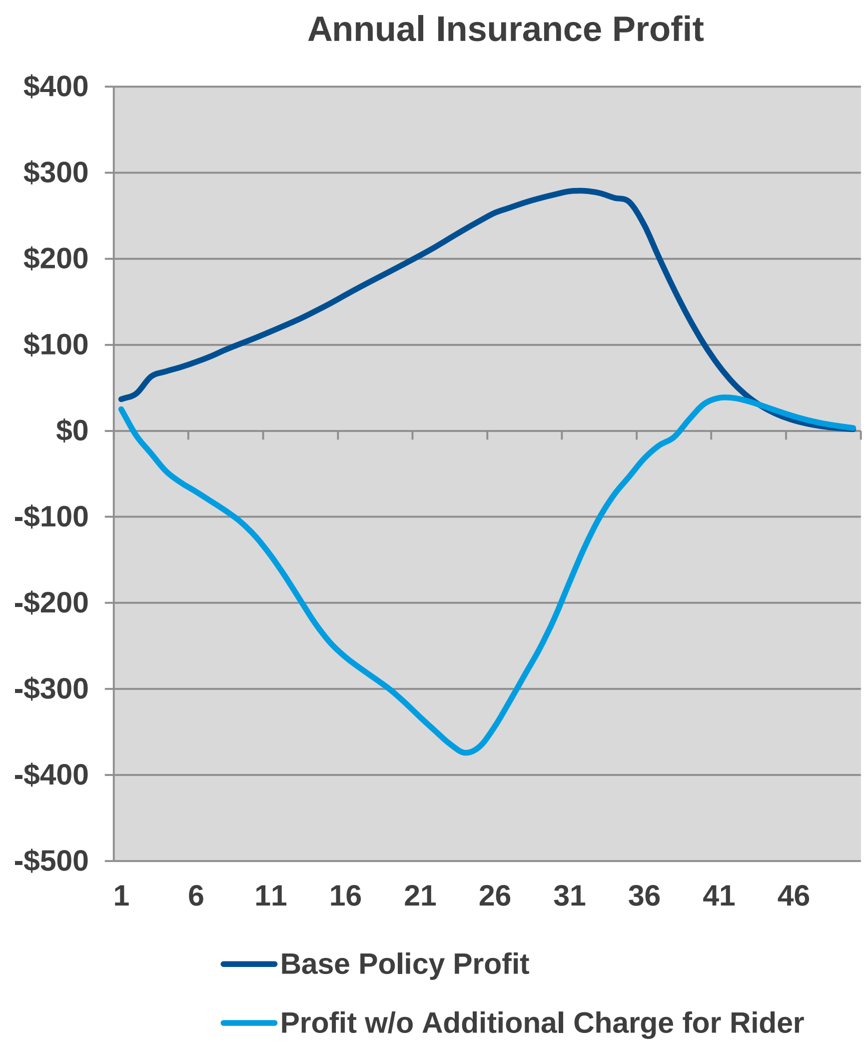
Sample base policy insurance charges are set to 115% of the net amount risk portion of the base policy expected death benefits as a proxy for COI Charges.

Pricing Techniques

Impact to Profitability

- The combination of the increase in benefit payments from the earlier acceleration payments and the reduction in insurance charges due to the lower inforce amounts of net amount risk causes a significant reduction in the overall profitability level of the policy

- When the acceleration rider is attached to the policy, there may be a mismatch between the current cost of insurance charges and the level and new shape of benefits



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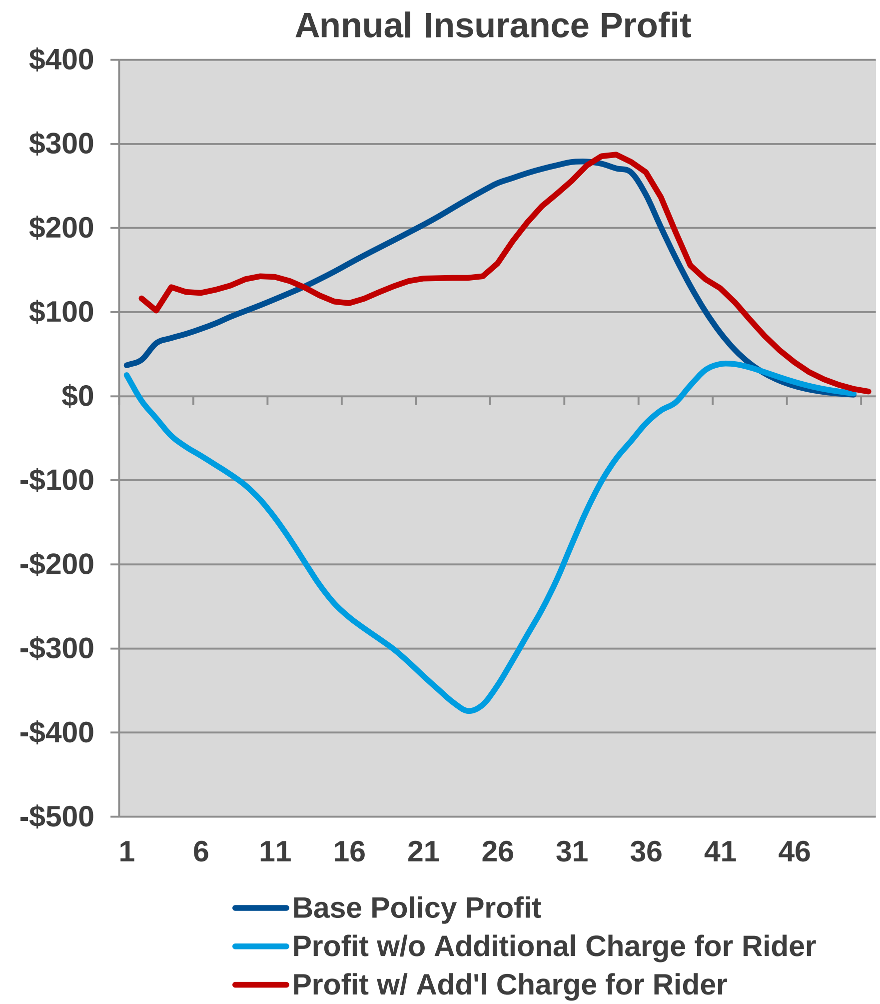
Pricing Techniques
Impact to Profitability

- An additional $2,572 (32.2%) of insurance charges would be required to restore the profitability
- The increase of 32.2% over the base policy is significantly more than the 18.8% increase in the total benefit payments.
- Simply increasing the insurance charges by the percentage increase in the total benefits will not be sufficient to offset the cost of the acceleration due to the reduction in net amount at risk over time.



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Conclusions

Conclusions

LTCI Linked Benefit Products Have Been Successful

- LTCI Linked Benefit Products offer a unique way for insurance companies to differentiate themselves in today's market
- Products fill a distinct client need as baby-boomers continue to age and lack long-term care coverage
- Products provide a multi-faceted solution in comparison to the stand-alone LTC market which has been declining sharply
- The major risks underlying the products can be mitigated by solid policy / product design, underwriting, claims management processes, and newly designed reinsurance structures
- Assumption Development is "Non-Trivial"; Spend Time Asking Questions
- These products can help an insurance company significantly grow the top and bottom lines while effectively managing their overall risk profile

Questions?

Tony Laudato, FSA, MAAA
Hannover Re

Vice President – Marketing
Mortality Solutions

200 South Orange Avenue, Suite 1900
Orlando, Florida 32801

Phone: (407) 996-2450
Mobile: (413) 695-2386

tony.laudato@hlramerica.com
www.hlramerica.com