

somewhat  
different

# Immediate Needs

A global challenge

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Longevity 15  
Washington, 12th September 2019

*hannover* re<sup>®</sup>

# Agenda

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**1** Ageing Societies

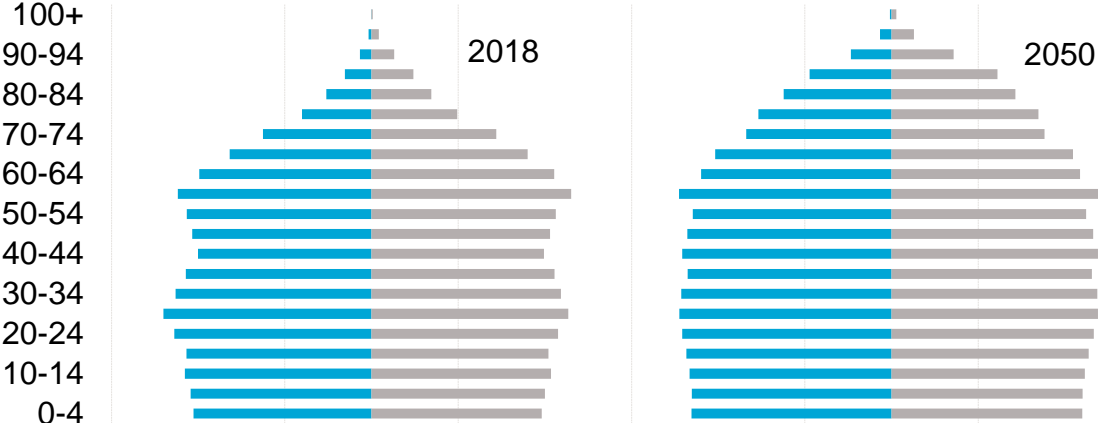
**2** US Long Term Care

**3** Immediate Needs Introduction

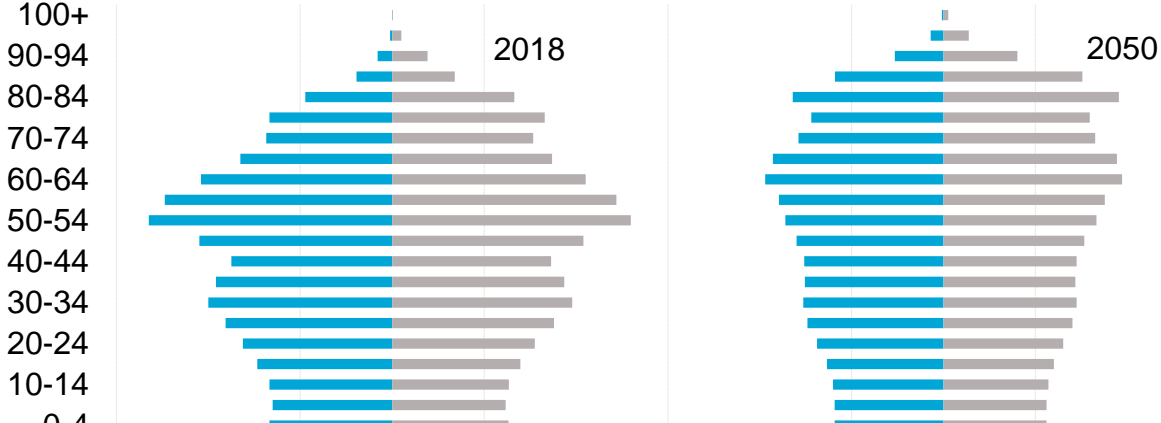
**4** UK Product

# Demographics: US versus Germany and UK

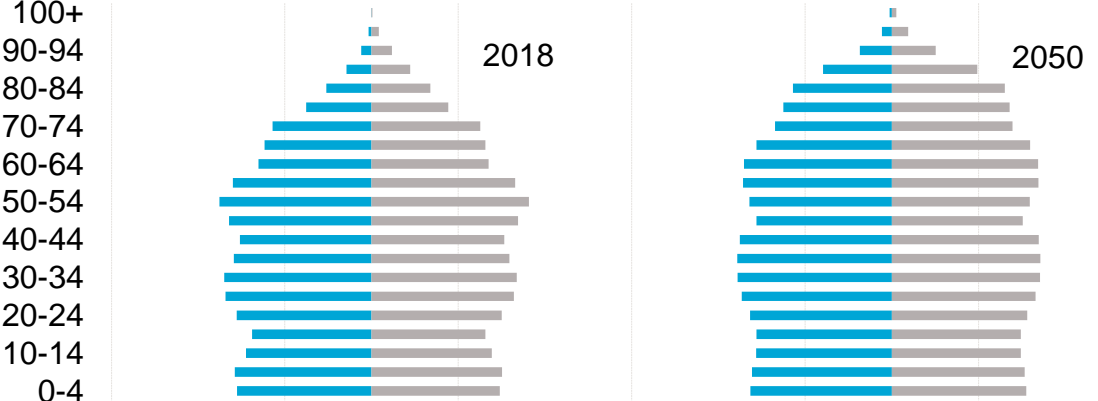
## US



## Germany



## UK



Ageing societies – growing care needs

# US long term care

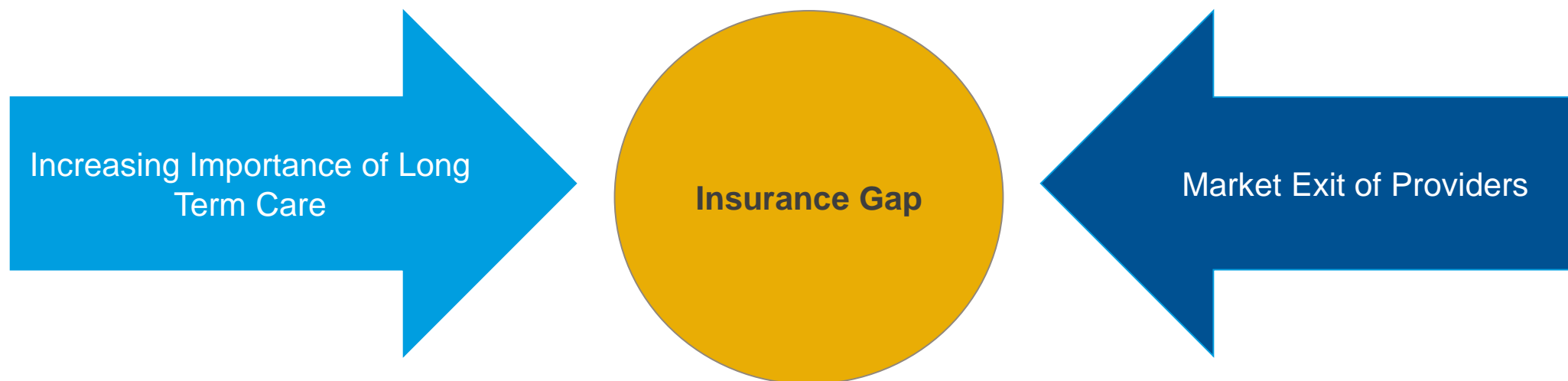
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- Status
  - Unfavourable results
  - Direct writers exiting market
- Policyholder situation
  - Rate increases causing equity constraints
- Insurer position
  - Political pressure impacts rate increases
  - New product concepts
    - Limited cover
    - Hybrid Mortality/Morbidity products



## Where is the problem?

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Insurance products filling this gap are needed

# Immediate Needs Product Concept

## Long Term Care

- Important in ageing societies
- Ideal to buy at young age
- Full protection with regard to possible future need of care

## But:

- Extremely long term rate guarantees
- Unpredictable liabilities for insurance provider
  - Limited data
  - Medical developments and future incidence rates

**Solution for people already in need of care:  
Immediate Needs Annuity**

## Why Immediate Needs Annuity?

### For the customer

- Security
- Easy to access

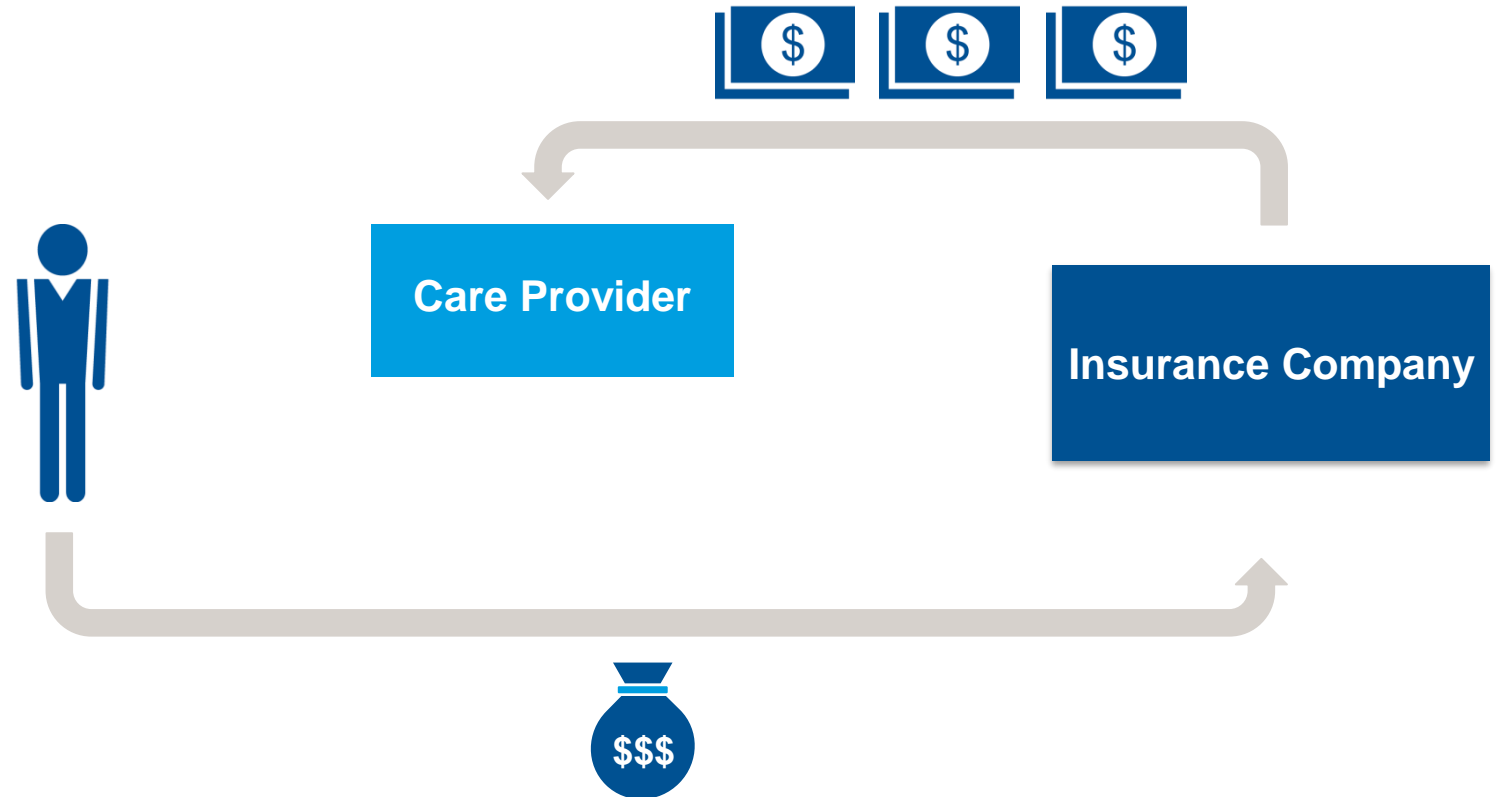
### For the insurer

- Only old age mortality
- No incidence rates
- Limited interest rate risk



# Features of an immediate needs annuity

- Sold to customers already in need of care
  - Nursing home
  - Care at home
- Insurer pays annuity covering care gap in turn for single premium
- Structure according to client's needs:
  - Indexation
  - Deferment for 1-5 years
- Single premium dependent on health status



# Medical Underwriting

## Differs from the traditional approach



Medical underwriting –  
still needed?

- Simple “medical” underwriting:  
No medical examination
- Underwriting is based on
  - Activities of Daily Living (ADL) like communication, orientation, mobility, continence
  - Medical impairments like dementia, multiple sclerosis, Parkinson’s disease

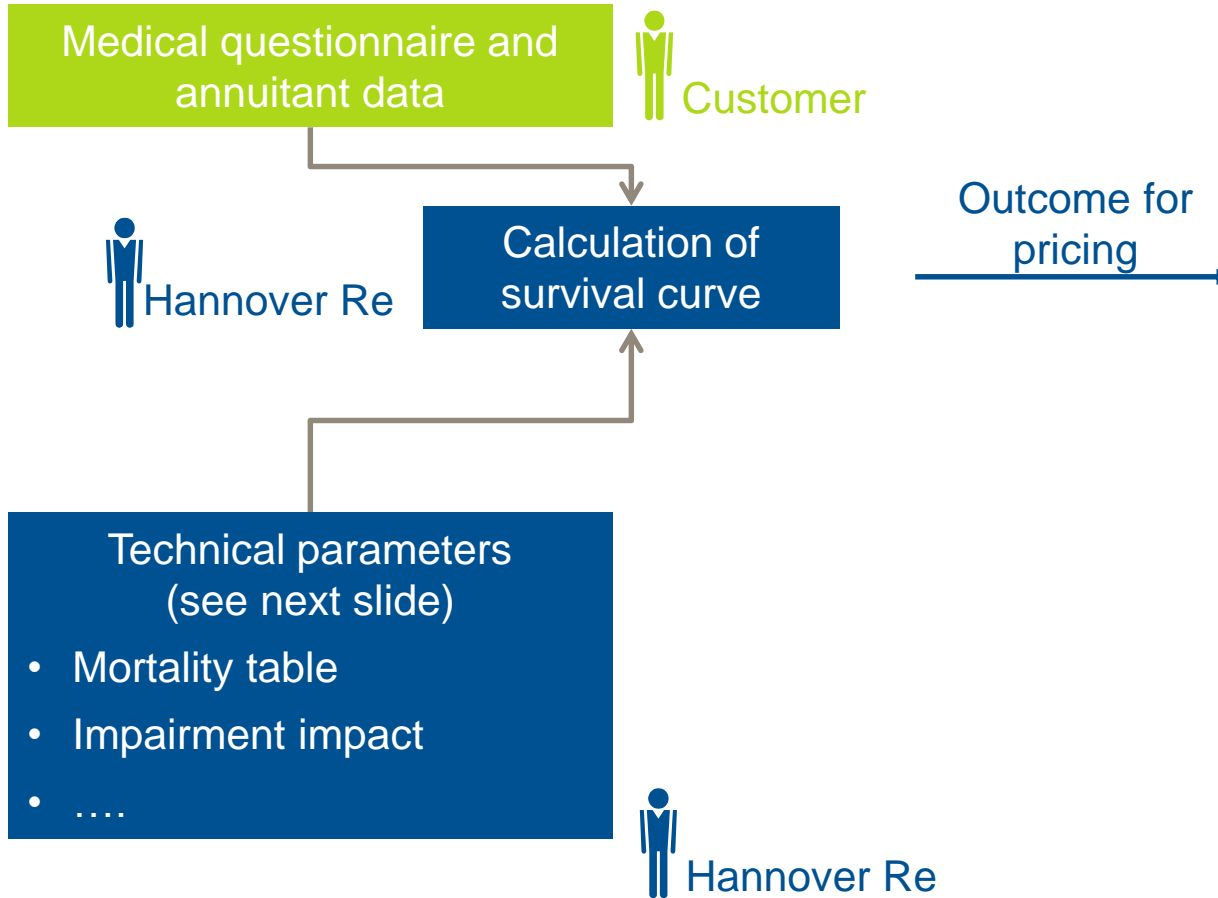



**UK process still slow – doctors report,  
customer and nursing home questionnaires**

**Suboptimal for customer and adviser**



# Immediate Needs Pricing Approach



Insurer 

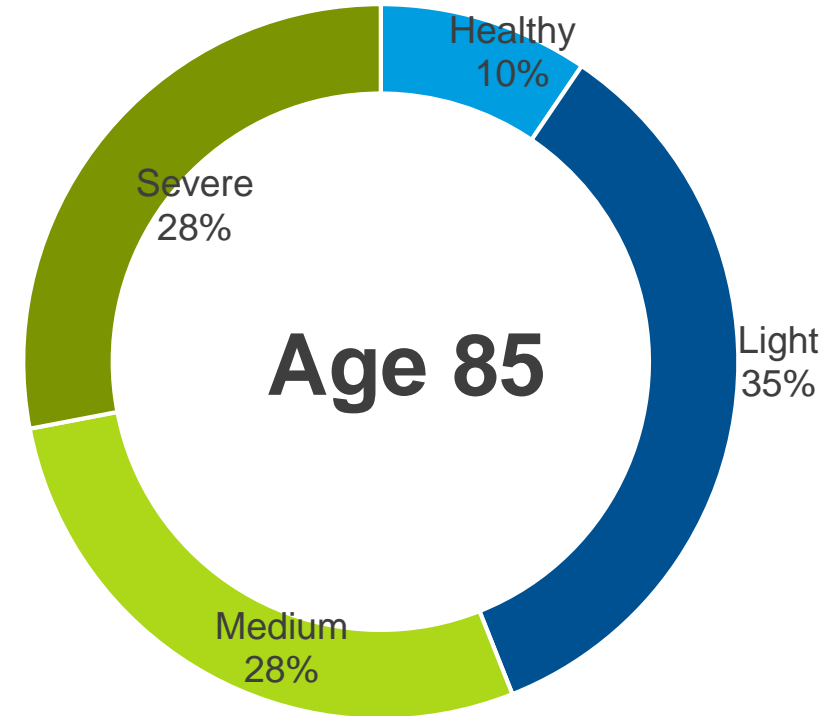
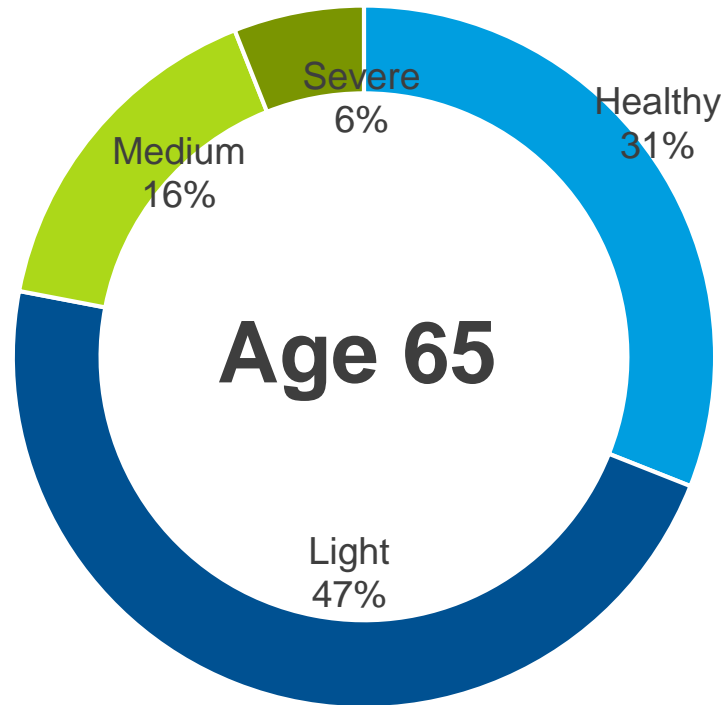
Monthly projections		
Final survival curve	Compound discount	Monthly payments
1.000	1.000	500
0.998	0.999	500
0.996	0.998	510
...	...	...

Net premium

+ Taxes, fees, costs, etc.

= Final premium

# How to derive the technical parameters



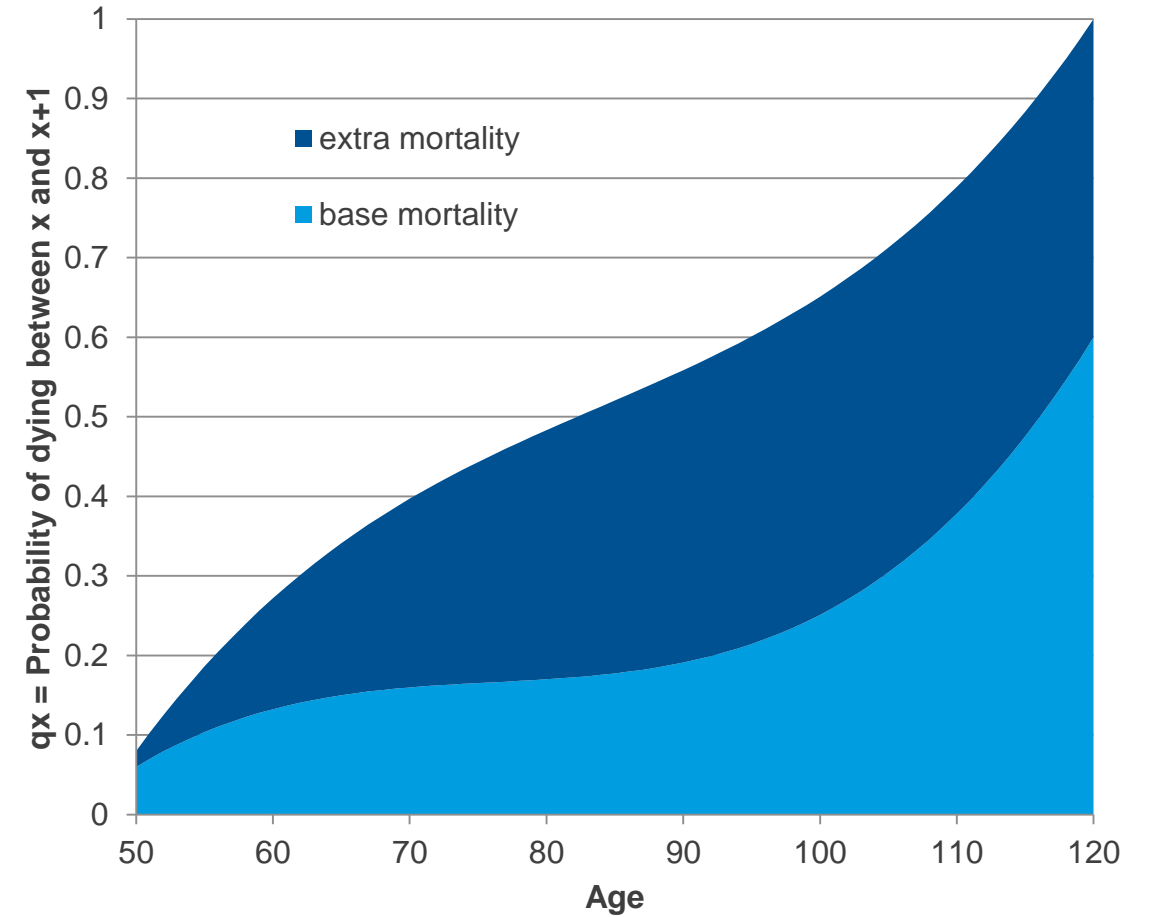
- Impairment Impact
  - „Healthy“ does not exist : Above age 80, less than 10% of population is healthy
  - Medical experts and actuaries

Limited population data.

# Calculation Approach

## Mortality model

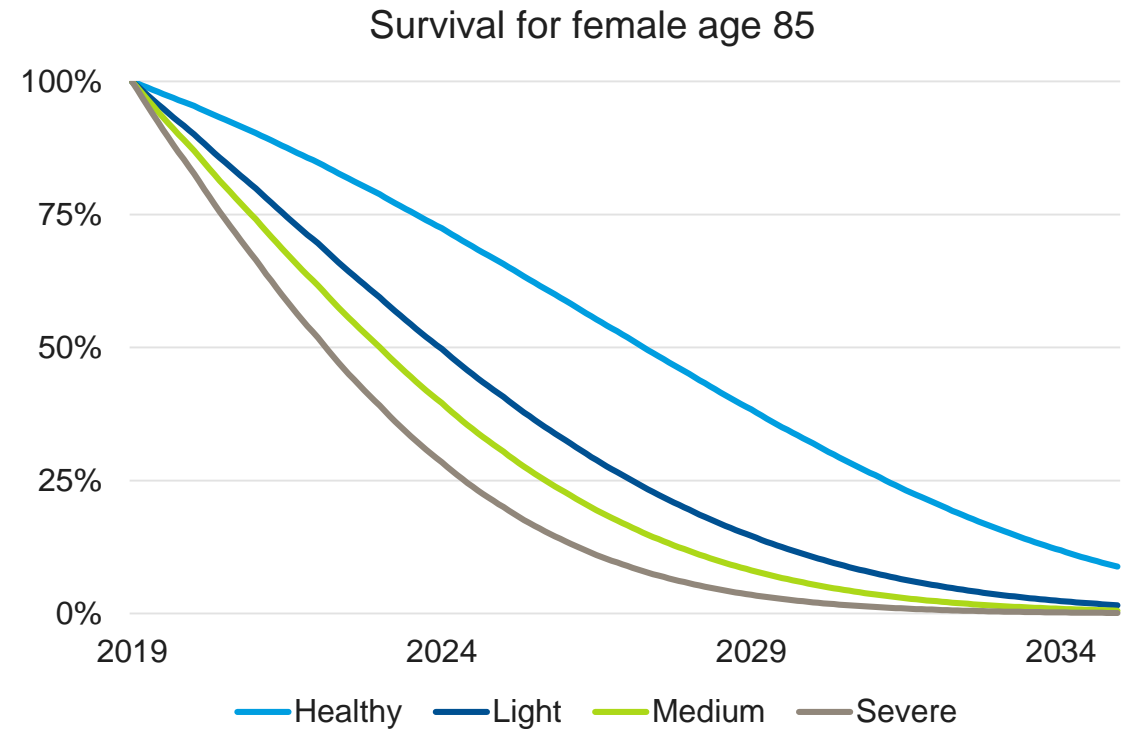
- Quantifying extra mortality using a hazard factor approach
  - Underwriting level from medical underwriting
  - Age at inception
  - Duration
- Calibration of components using evidence-based research and medical experience



# Sample Survival curve

## Additional considerations: wealth and unisex

- Correlation between wealth and survival
  - In UK, adjustment for size of annuity is made
  - Adjustment factor applied to the medical impaired vector
- Unisex premium rates
  - Calculate both gender-specific survival curves
  - Weight according to expected gender mix



# UK Experience

## Market Environment

- Immediate Needs Annuities: without alternative
- Private pre-funded products: limited availability
- Premium Volume: GBP 110m in 2018
- Average purchase price: GBP 115,000
- Average policyholder: 85-year-old female
- Providers: 4 (2 in pilot phase)

**Regulatory framework determines attractiveness**



# Long Term Care gains importance

## Challenge

- Care dependence creates unpredictable liabilities
- Substantial variance in individual life expectancy
- Variance risk is with patient and family

## Individual Immediate Needs Annuity

- Covers gap during care phase
- Issued at entry into nursing home
- Simplified medical underwriting to project life expectancy
- On single premium basis

## Benefits

- Insurance takes the “variance risk” from patient & family
- Payment security for nursing home

# Immediate Needs Annuity Summary

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1



Lifetime annuity for clients in need of care

2



Calculation of real need: “Long Term Care cost gap”

3



Simplified medical underwriting

4



Clarity on costs

**Applicable in US?**

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