

# New Annuity Concept with Coverage against Serious Illnesses and Long Term Care

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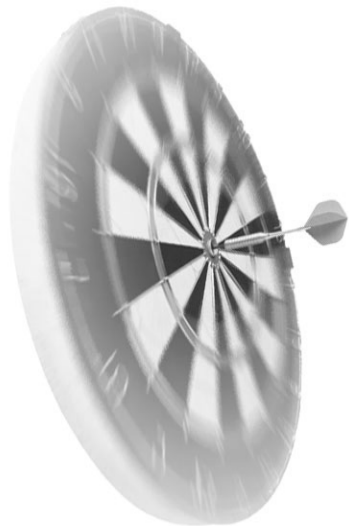
Washington, 03/31/2014

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# Objectives

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- **Challenges of longevity products in Germany**
- **Looks at a Serious Illness Option**
- **Gives an overview about a new Annuity Concept**

# Outline

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## Retirement provision system in Germany

Customers requirements vs. product offers

The way to a new Annuity Concept

- Yesterday: Basic concept/product benefits
- Today: Serious illness option
- Tomorrow: A new Annuity Concept ?

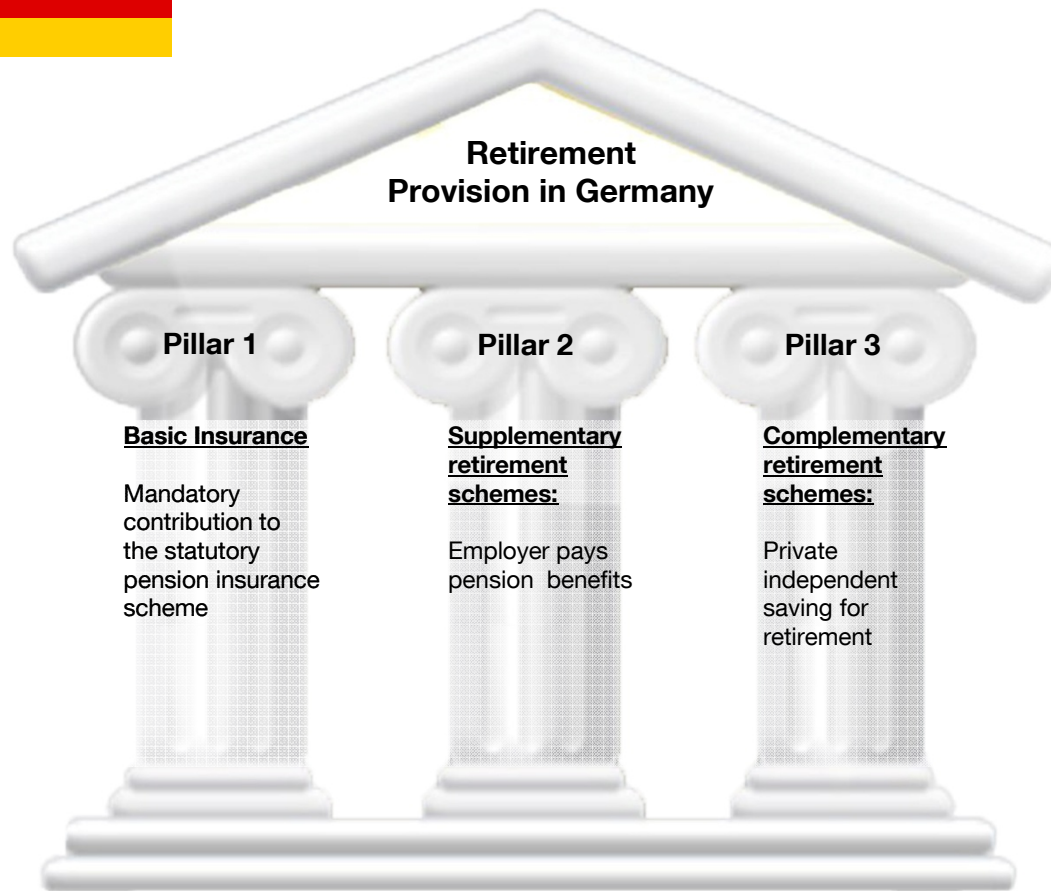
Challenges

Conclusion

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# Cracks are appearing in the three-pillar German System for retirement provision

## Market overview



### Key Figures

#### **Pillar 1**

- Level of pensions for active members of social insurance funds about 50% of net-income, decreasing to 43 % in 2030
- Level of pensions for civil servants about 73 % of net-income, decreasing slowly

#### **Pillar 2**

- Decreasing number of new policies from 7.56 Mio in 2009 to 7.45 Mio in 2011

#### **Pillar 3**

- The market volume of private annuity products decreased up to 24% in the past three years

The definite need to reduce the gap in private retirement provision is not reflected in the market situation for private annuity products

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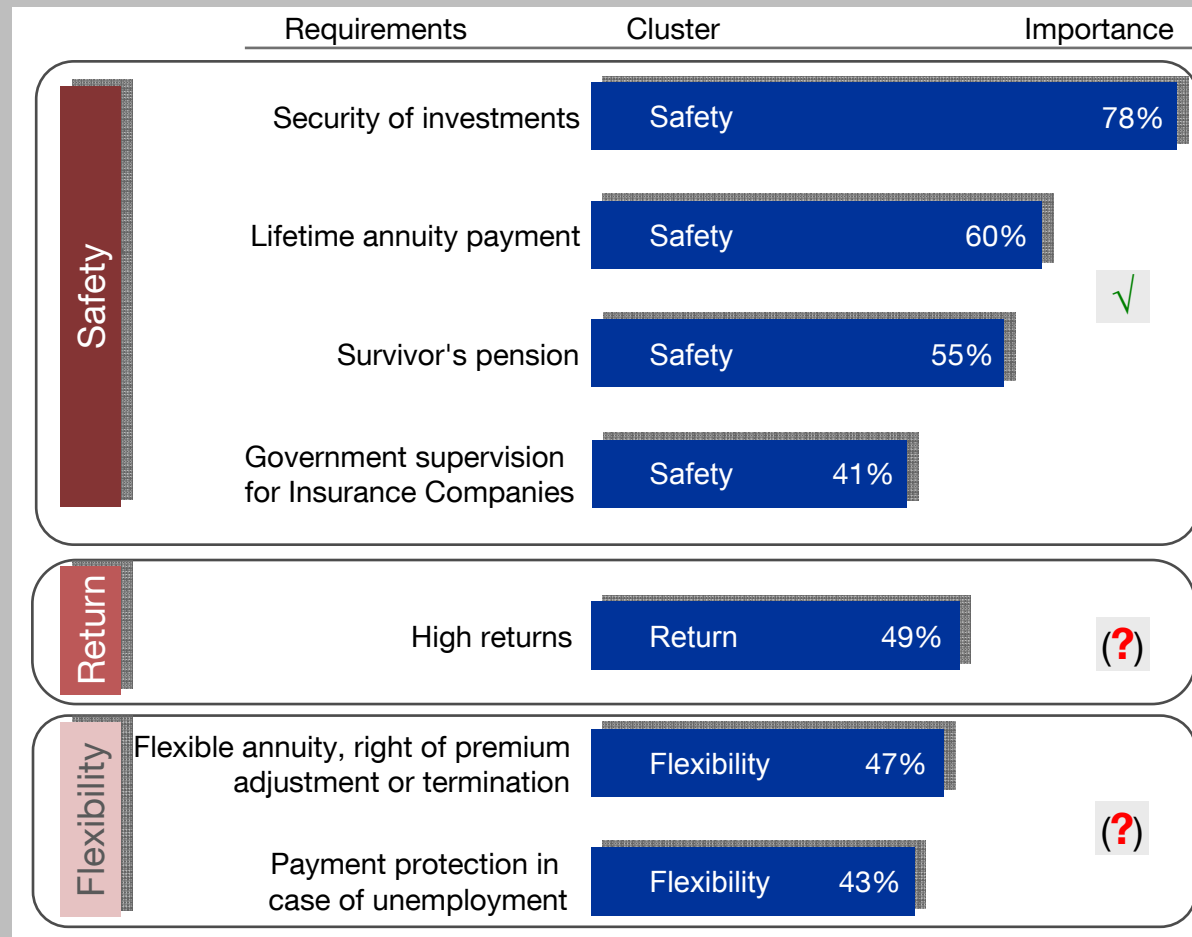
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# Today's annuity concepts do not reflect the customer's demand for product flexibility and reasonable returns

## Challenges for Longevity Products

Customers' needs on annuity products (in Germany):



Needs satisfied?

### Further demands to safety:

- Security of investment is the main objective!

### Further demands to return:

- Fair return, based on a reasonable consideration of customers realistic life expectancy according to socio-economic and lifestyle factors

### Further demands to flexibility:

- Free access to capital
- Possibility of moving the start of retirement
- Lump-sum option
- Temporary release from premium payments
- Varying death benefits
- Consider changes of life circumstances or physical health

Source: GDV – IfD-Allensbach 2012

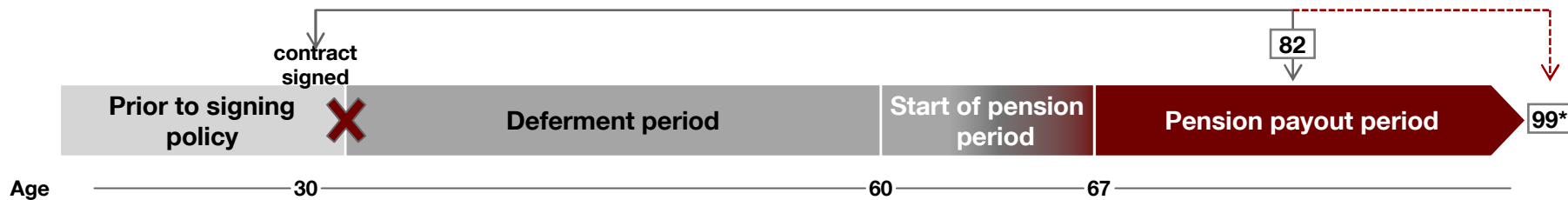
# Gap between peoples perceived and calculated life expectancy and the expectance of high yields causes a reluctance to buy private annuities

Have a look at “Jeff” (30 years old)

**„Jeff“**

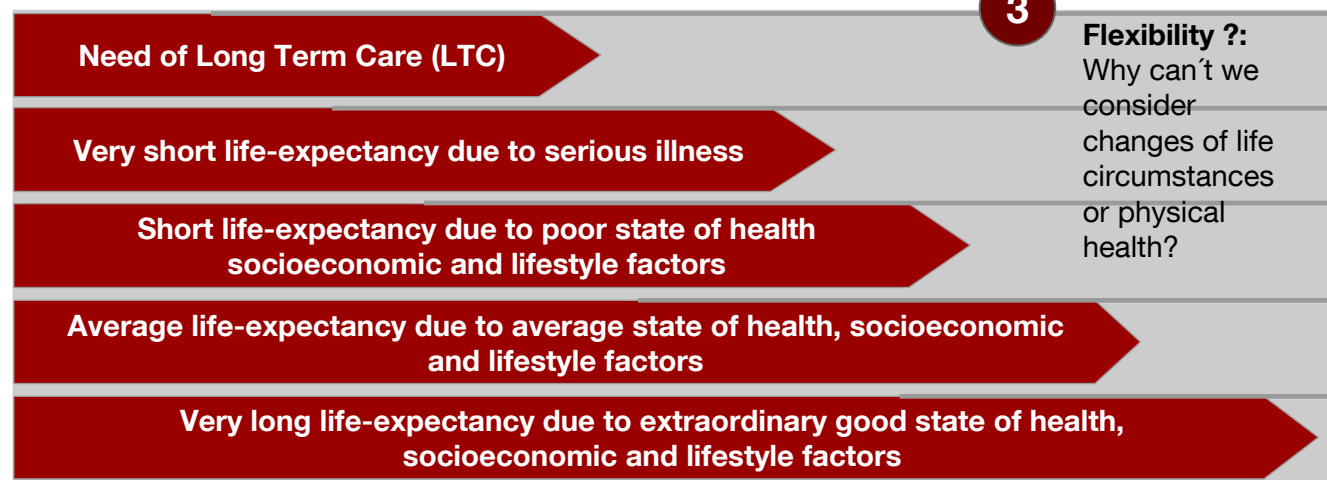
- normal state of health
- perceived life expectancy, Mortality table 2008/2010 Statistical Federal Department Germany

- Significant gap between perceived and calculated life expectancy
- Hence premium appears too high
- Lifetime annuities more suitable for healthy customers with high life expectancy



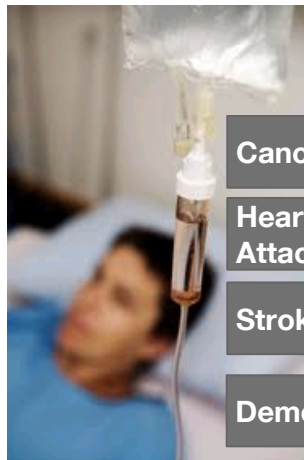
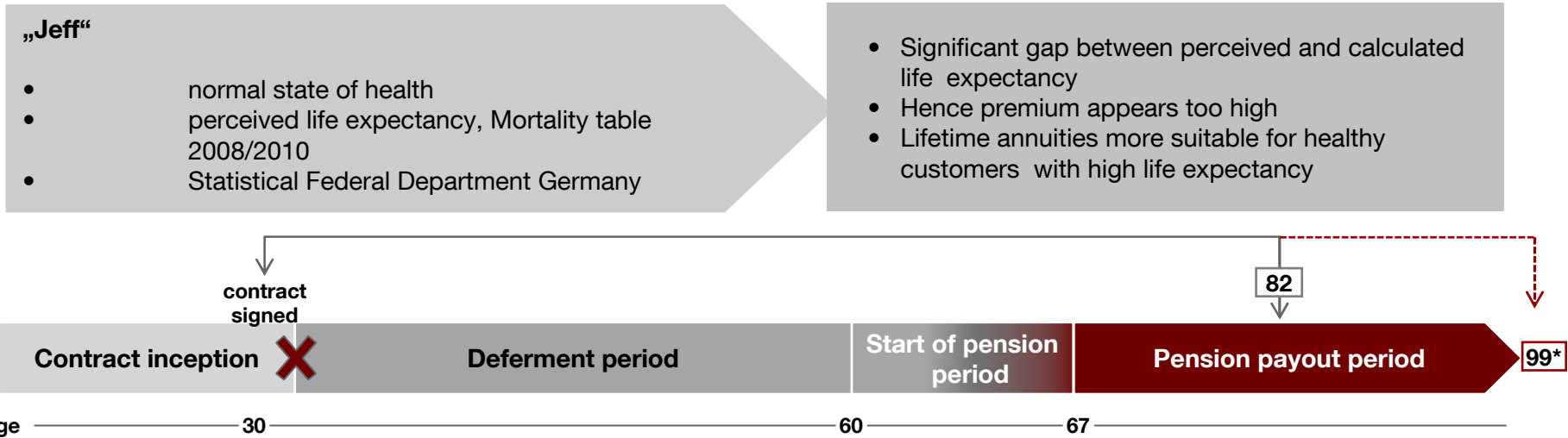
**1 Fair Return?**  
How we can explain, the gap between Jeff's perceived and calculated life expectancy?

**2 Fair Return?**  
Why should customers with poorer state of health buy longevity products?



# About the importance to consider changes of life circumstances or physical health

Critical illness can occur at any age before or after retirement



**3 Flexibility ?** Why it is important to consider changes of life circumstances or physical health?  
How many people are diagnosed with critical illness in Germany (Population: 81,7 Mio) ?

- Cancer<sup>1</sup>** • 1,4 million people currently suffer from cancer, about 490.000 in 2012 are diagnosed with cancer (~90.000 more than it was 10 years ago), **average age 68-69!**
- Heart Attack<sup>2</sup>** • 1,8 million people currently suffer from heart failure, over 250.000 people suffer a heart attack annually, the **average age is between 52- 80!**
- Stroke<sup>3</sup>** • Around 270.000 people suffer a stroke annually in Germany, **average age 54-55!**
- Dementia<sup>4</sup>** • 1,2 million people currently suffer from dementia (forecast for 2050: 2,6 million people)

<sup>\*)</sup> DAV 2004R Mortality table published by the German Actuary Association for calculation of life insurance annuities

Source:

<sup>1</sup> German Cancer Research Center

<sup>2</sup> German Heart Foundation

<sup>3</sup> German Stroke Foundation

<sup>4</sup> German Alzheimer Society



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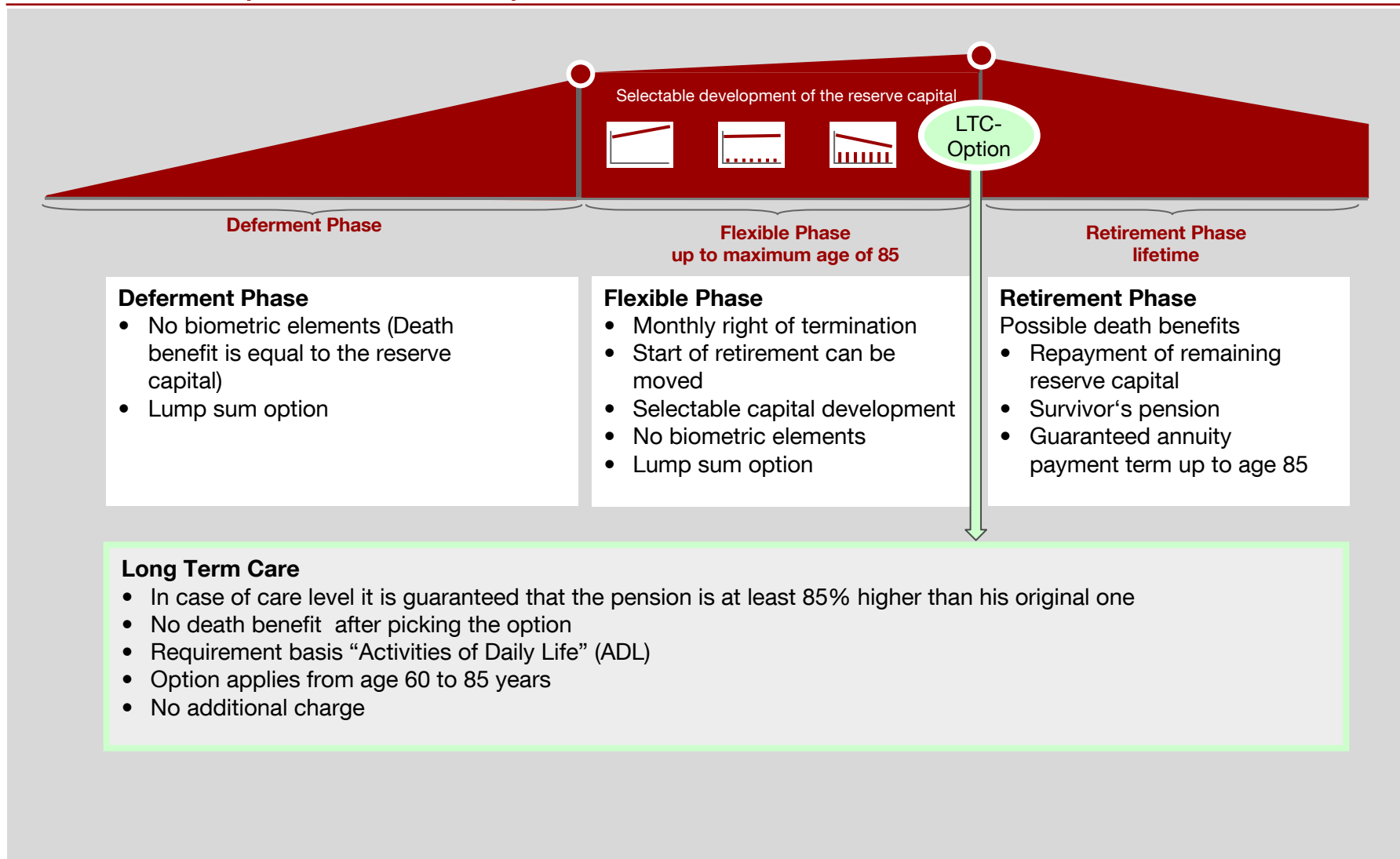
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# Yesterday: Highest possible pension is of prime importance to policyholders with long-term-care to cover expensive cost of care

## Basic Concept with LTC-Option



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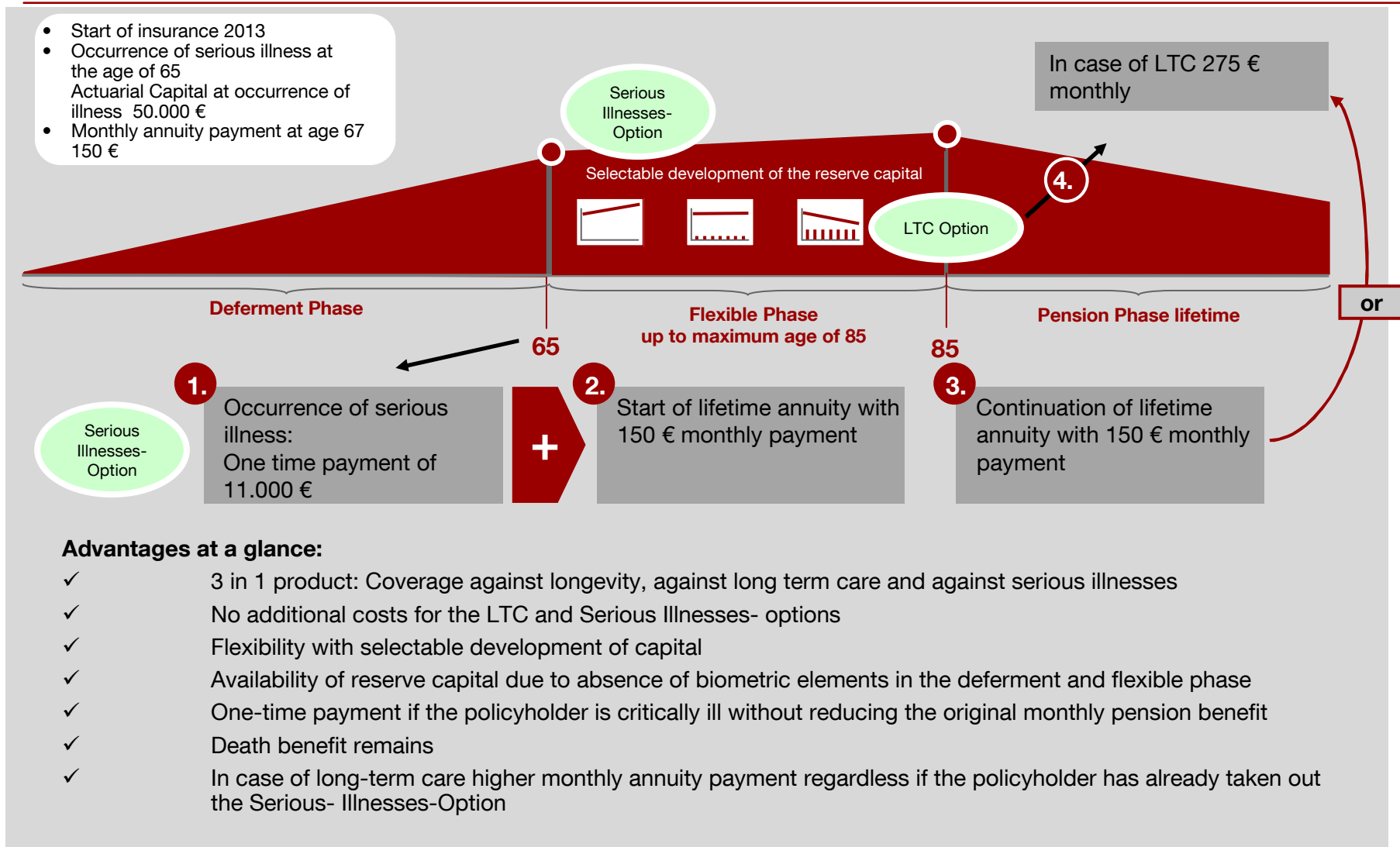
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# Today: On Top benefit: Coverage against serious illnesses by one time payment Basic Concept with Serious Illnesses Option



# A combination of components is needed to finance the guaranteed one time payment without changing the original monthly annuity

## Calculation Specifics SIO

### Component 1

Release reserve capital by **excluding the death benefit** as a guaranteed benefit

The **death benefit** will instead be **financed by surplus participation**. To compensate for this additional surplus benefit the policyholder will only receive **reduced annuity-increases out of the surplus participation**

About 5% to 10% of available capital will be released depending on annuity starting age

### Component 2

The starting annuity will be recalculated "honestly" by using the **mortality rates for serious ill** people

About 15% to 20% of available capital will be released depending on annuity starting age

### Result

**In total, about 20% to 30% of the reserve capital will be available to be paid to the policyholder!**

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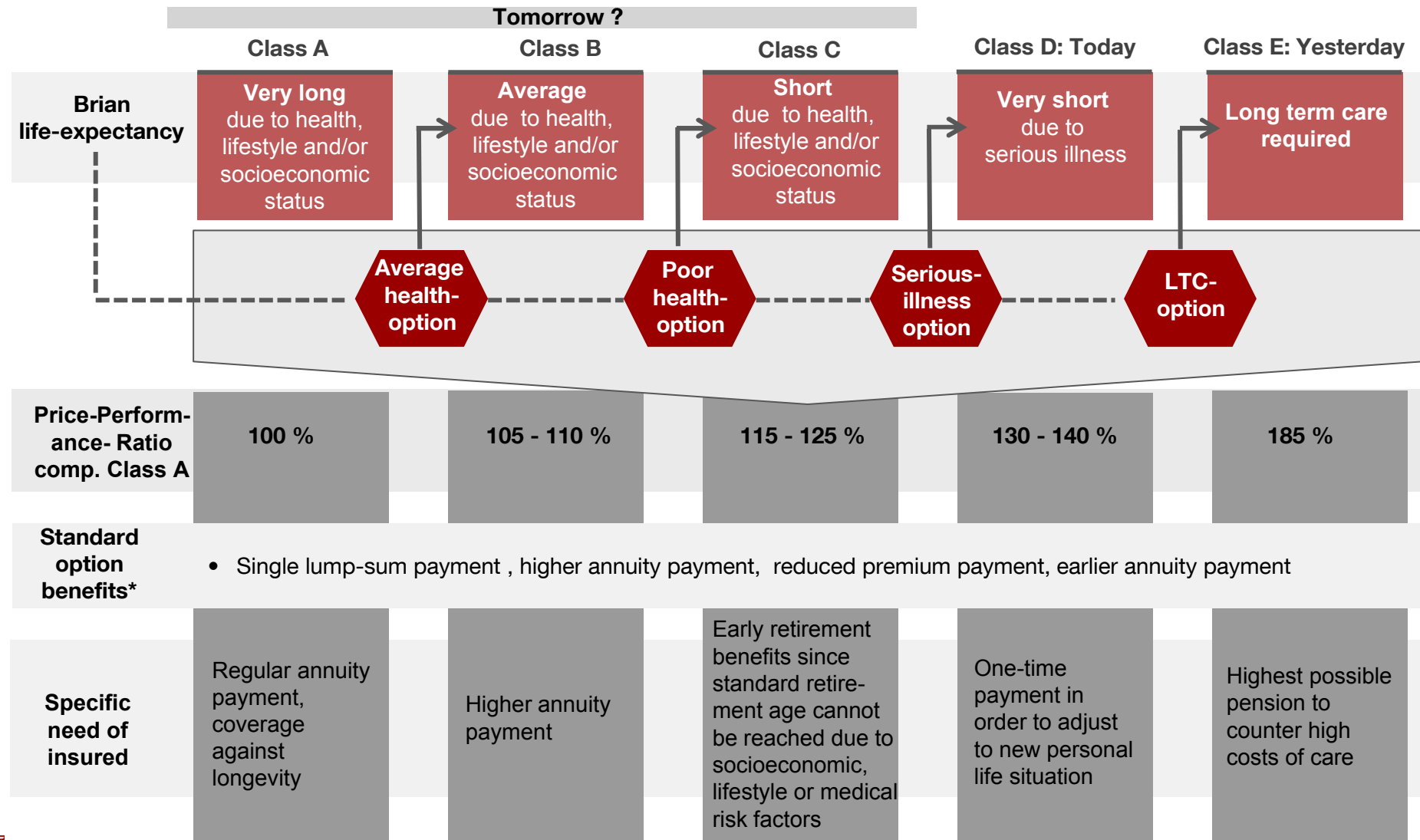
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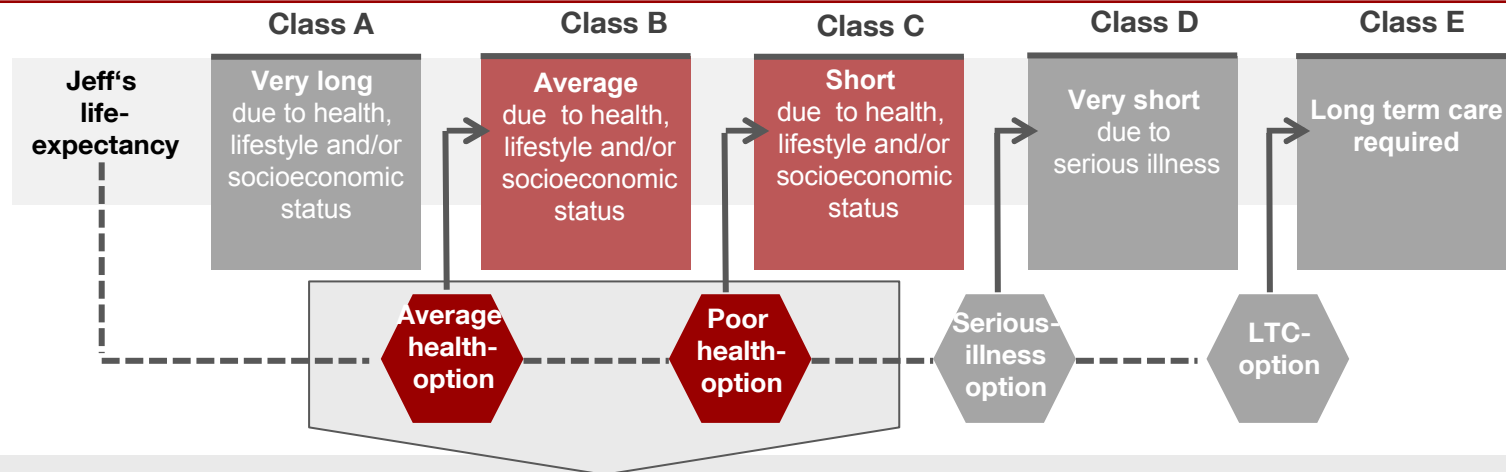
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# Tomorrow: Options-scheme enable demand-oriented policy adjustment as part of the existing annuity

Basic concept – As flexible as life itself!



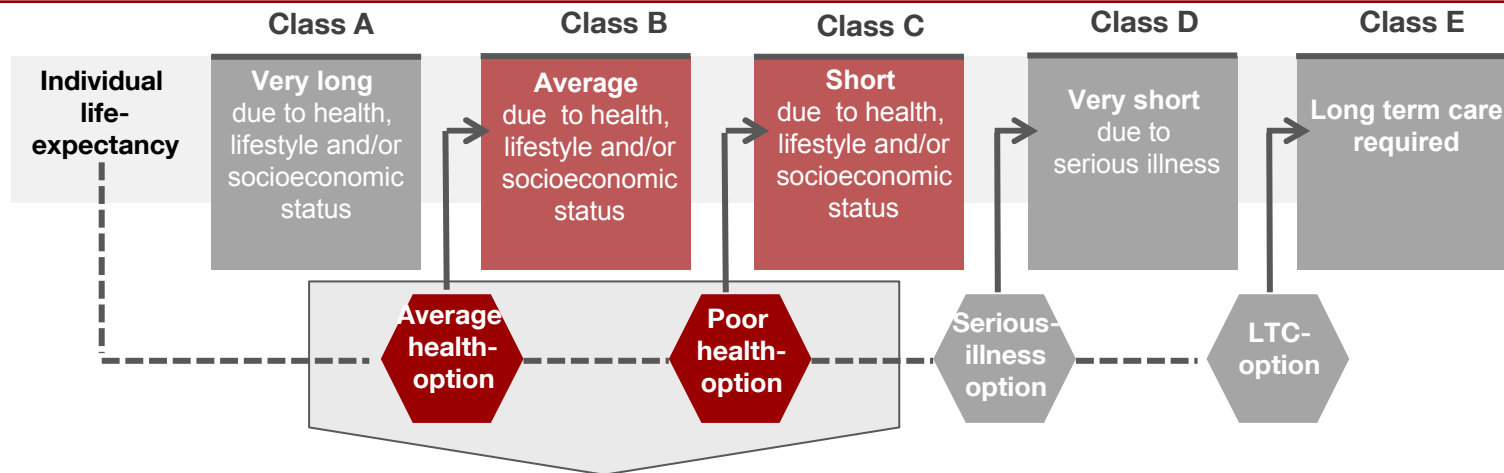
## Description of “Average-health-option” and “Poor-health-option” Class B and Class C



- “Average health option” e.g. very high or very low BMI, low economic status
- “Poor health option” e.g. strong smokers, severely disabled, reduced earning capacity due to poor state of health
- Prerequisite for taking out the option is that state of health of the insured can be characterised such that the life expectancy is considerably lower ("Average-health-option") or even significantly lower ("Poor-health-option") than for the people having extraordinary good state of health
- The precise prerequisite for taking out the option will be defined such that
  - the insured of class B can be granted a total annuity of about 105% to 110% compared to insured of class A and
  - the insured of class C can be granted a total annuity of about 110% to 120% compared to insured of class A
- The total annuity will be calculated by using a "second order annuity table" depending on the risk class the insured belongs to
- The amount of guaranteed annuity will be calculated by using an annuity table with reduced safety margins compared to insured of class A
- For the reason of safeness in the calculation: The amount of guaranteed annuity will be reduced after a certain period, however the difference to the full annuity will be compensated by profit participation
- Death benefit: guaranteed annuity payment for a duration which equals the life expectancy of the insured



# Description of “Average-health-option” and “Poor-health-option” Illustrative profiles



**Mary,  
30 years  
old**

### Average health option, Example

- Body-Mass-Index lower than 16
  - Yearly salary lower than 20.000 USD
  - Being sometimes in a depressive mood
- Mary could apply for an annuity about **10%** higher compared to Class A

**Brian,  
50 years  
old**

### Poor health option, Example 1

- Cholestery higher than 7,8 (mmol / l)
  - Blood pressure about 150 / 95 (mm Hg)
  - Both parents died between 50 and 60 years
- Brian could apply for an annuity about **15%** higher compared to Class A

**Jennifer,  
40 years  
old**

### Poor health option, Example 2

- Body-mass-Index higher than 30
  - Smoking about 40 cigarettes daily
  - Regular consumption of medicine
- Jennifer could apply for an annuity about **25%** higher compared to Class A

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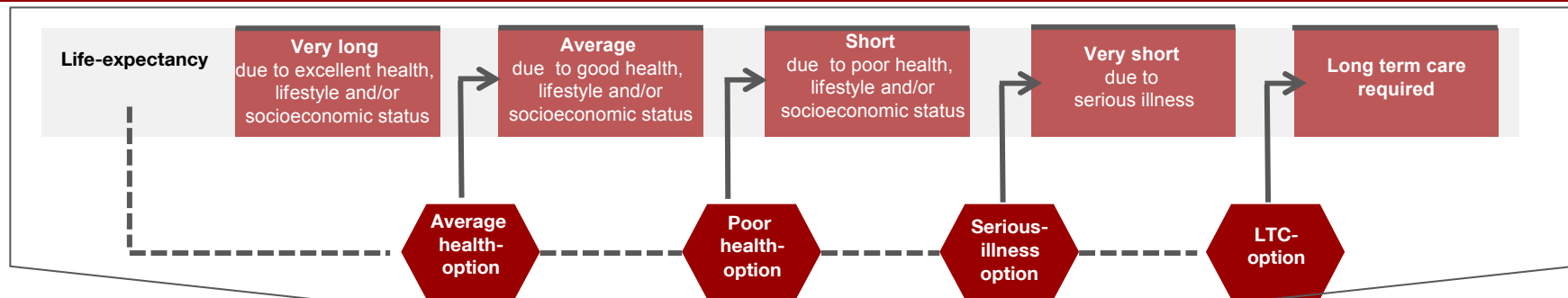
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## Actuarial Challenges (for all options)



### Calculation basis – derivation of mortality table

- Uncertainty about future medical progress
- Mortality rates must reflect:
  - Excess mortality very high in first years after the diagnosis of serious illness but decreases as time goes by
  - Increased mortality also depends on type and severity of the specific illness
  - Credible mortality rates for serious ill people are only published for a limited range of ages

### Product Design – Death benefit needed for policyholder with serious illness

- Avoid negative public reception
- No “win-lose”- character between provider and annuitant
- Thus an appropriate death benefit must be provided out of profit participation in order to eliminate possible accusations on betting on premature death

### Calculation basis Transition of risk classes

- For each risk-class: Choose a calculation such that the transition from one risk class to another is self-financing to ensure: The total average value of the insurance benefits for those who take one or more options will only increase slightly if the assumed excess mortality is lower than expected.

### Calculation basis and product design - no interference between classes and time sequence of the options

- Keep the single options separated; no interference of the calculation within the different classes

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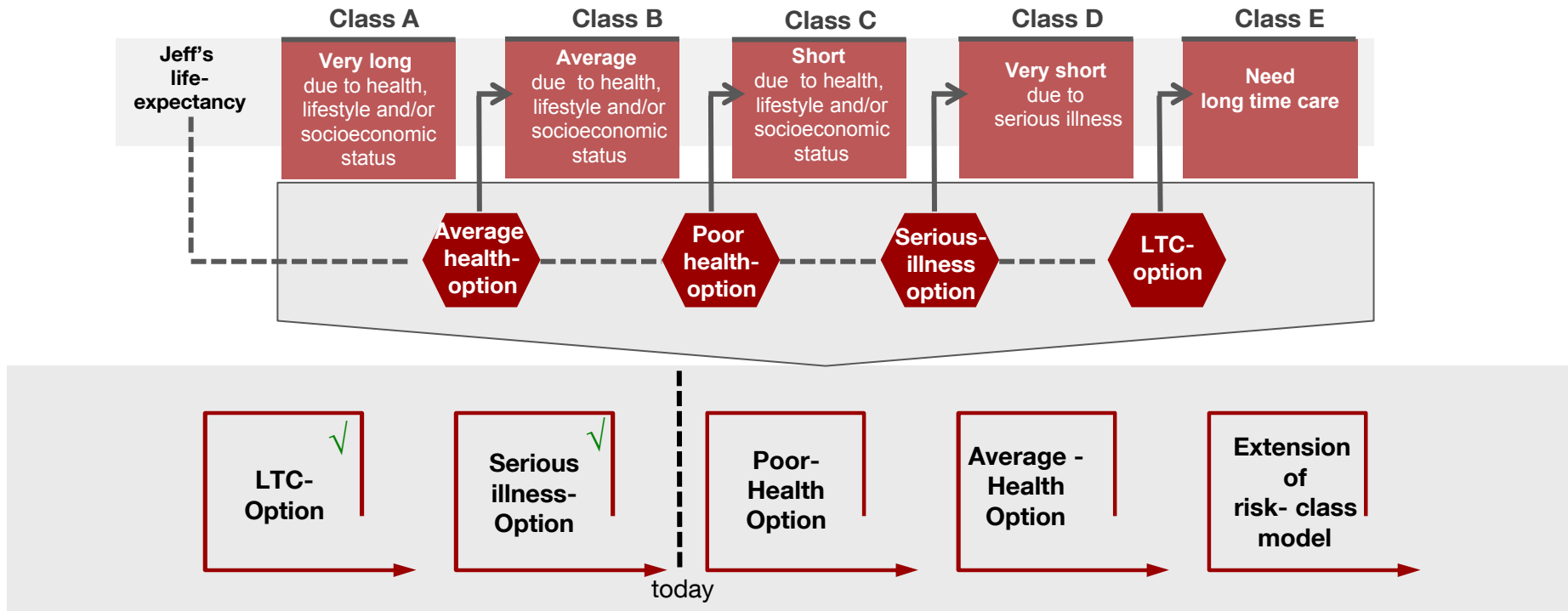
**Challenges**

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# All stakeholders including policyholders benefit from our new Annuity concept

## Conclusion



## Conclusion

- Serious illness option is part of new annuity concept, which takes the customers' desire of more flexibility and fair return into consideration
- Based on a very good state of health at the commencement of the insurance, the policyholder holds an options- scheme, which considers his real best estimated life expectancy and which makes private annuities more attractive

# Beside customers needs, as a main target, all stakeholders can take advantage with our new Annuity Concept

## Conclusion

### Customer

- Three in one – product - annuity, coverage against serious illnesses and against long term care – without paying more for the lifetime annuity
- No waiting period compared to regular Dread Disease products
- No complex underwriting compared to Impaired Lives Annuities

### Sales

- Annuity products can be sold to a wider clientele and not only for specific target groups with different state of health
- No additional questions to the consumer about his state of health when showing model calculations
- Sales arguments:
  - Close gap in retirement provision
  - Product flexibility
  - Attractive options **without paying more**

**Premium Concept with win-win situation out of every sight**

### Company

- Flexible elements in the calculation, e.g. use of surpluses to generate a new benefit form, in order to offer more attractive products without increasing premium
- Win new customers with average life expectancy and keep customers with high life expectancy
- Reduce capitalization rate

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# Thank you!

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# Backup!

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