LifeHealthPro

Riders: The New Selling Point

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A. Accelerated death benefit rider: Pays a portion of the death benefit to the insured upon diagnosis of a terminal illness that will significantly shorten life expectancy.

B. Long-term care rider: Pays a monthly benefit to clients who receive home care or care in a nursing home -- a good solution for clients who don't think they need long-term care insurance.

C. Waiver of premium rider: Waives premium obligations during a period of disability or illness, while the insured continues to benefit from the policy.

D. Guaranteed insurability rider: Useful for times when more coverage is needed (after a marriage or a baby, for example), this rider allows you to update your original policy at your current rate, without undergoing a second medical exam.

E. Accidental death rider: Also known as a double indemnity rider, this increases the benefit if the insured dies as a result of an accident, often up to twice the amount of the policy's face value.

F. Spouse insurance rider: A straightforward rider offering term insurance for the policyholder's partner at an additional premium cost.

G. Child term rider: Provides a death benefit for children who die before a predetermined age. Once the child reaches maturity, a term rider can be converted to a permanent policy without an exam.

For the consumer, it's all about added benefits. For agents selling in a tough economy, it's more about finding ways to attract and retain customers. Fortunately, that's how insurers view things, as well. Thanks to a recession and its after-effects, insurers are finding new ways to appeal to customers. They've responded with a number of policy riders and annuities that can help agents capture much-needed business.

Policy riders are by no means new, nor are they necessarily must-have items for consumers. Created to fill gaps not addressed in primary coverage, they have morphed into enhancements intended to draw in consumers who need just one more feature to sell them on the main policy. In some cases, product riders are riders in name only -- they are true stand-alone products.

There's no doubt the crux of the changes in riders have come from consumer demand. As markets hardened, consumer buying habits hardened, too. It's no longer enough to simply sell a life insurance policy. Policyholders want more. They want guarantees, added features and incentives that entice them to invest.

Value-added inclusions

Many insurers have rolled policy riders right into the policy itself as an added feature, but they've become enticements that sweeten the deal. The StanCorp Financial Group, for example, offers a guaranteed renewable product. Premiums are locked in, and the renewable aspect reduces the price to consumers by 20 percent. There's also a non-cancellable rider, and a catastrophic product that doubles the payout for a disability event that also fits within a long-term care situation. Steve Brady, StanCorp's second VP of individual disability insurance sales and marketing, believes the disability market is an untapped resource for agents. Brady suggests using a permanent life insurance product or an annuity and building disability into it to bring back all premium benefits at age 65.

Yet he sees a disconnect between the need and the consumer. "Disability is a selfish purchase. It's easier to be unselfish and say 'I'm buying life insurance because I love somebody.' It's an interesting process to go through that decision."

The Hartford's lineup of riders include its Life Access and Longevity Access. Life Access is a patented accelerated death benefit rider used to pay for the condition, not the care of the condition. In other words, it can be used for any purpose, including family caregivers. The price is guaranteed. The Longevity Access product advances the death benefit, up to one percent per month, up to (and even beyond) age 90.

Dr. Robert Pokorski, chief medical strategist at The Hartford, developed the LifeAccess product. He says the products were born of a need that researchers at The Hartford uncovered. "Most chronic care is provided at home and there's nothing out there [covering those expenses]. That was the driving force."

Continuity and flexibility were the drivers behind OneAmerica Financial Partners' survivor purchase option rider, which allows the insured's beneficiary a conversion option on the death of the insured. According to Greg Purvis, assistant VP of advanced sales and marketing development, an additional individual is underwritten at the time of purchase, which can be a spouse or someone else in whom there is insurable interest. The option allows the beneficiary, often the surviving spouse, the option to purchase coverage separately while allowing the death benefit to be paid. "It gives more options to the beneficiary, and it gives agents a lot of flexibility of design."

The world of annuities

Probably the most attractive, complex product for consumers is the annuity policy rider. Despite the word "rider" in its description, some of these are stand-alone products. While many annuity riders do attach to an underlying annuity product, several serve as separate contracts. Consumers can now purchase long-term care, fixed income or variable income riders. Moreover, within the fixed and variable income choices are other options -- deferred payment or immediate payout plans.

For groups like Allianz Life Insurance Company, fixed index annuities have become a popular alternative to traditional retirement funds. The latest incarnation for the company is Allianz 360, a fixed index annuity product that offers increasing income benefits for both accumulation and income. According to Eric Thomes, Allianz's senior vice president of sales, the income rider has received a lot of attention. It's been popular on variable annuities, but has seen new interest as part of a fixed index annuity. Because it comes equipped with guaranteed withdrawal benefits, owners can draw income off the asset in much the same way one would draw income from a traditional retirement account. It must be taken out in an income stream, not in a lump sum. The underlying insurance benefit remains no matter what happens on the annuity side of the equation. And because it's fixed, the annuity value will never dip below the minimum investment amount.

The largest selling features in the Allianz product are additions that came as a result of people living longer. Two new benefit options added to the income rider allow for either a predictable monthly payment or start with a lower monthly payment that increases over time. "These benefits are going to become very, very appealing to Baby Boomers and people getting to retirement age because it's replacing something they're familiar with, and that is getting a paycheck whether it's from their pensions or their Social Security benefits."

Perhaps the time is right for the fixed annuity product. According to a Larsen Research study sponsored by Allianz, consumers given the choice between an 8 percent return with market risk versus a guaranteed 4 percent return with no market risk chose the 4 percent return by an overwhelming 76 percent. "One client told me for most of his clients, it's not about return on their principle; it's return of their principle," said Thomes.

Agents as financial advisors?

The question is: are agents ready? Gary Baker, head of U.S. operations and president of CANNEX U.S., an annuity data tracking company, cautions that fixed and variable annuity sales may not be within the bailiwick of many agents. It would depend, he says, on the agent's specialty, career level and training in handling such products.

Baker, who calls the deferred annuity market the "Swiss army knife" of financial products due to its ability to cover so many areas of need, thinks the hybrid products have potential for agents willing to put training into learning the aspects of the products and how to sell them appropriately. Make no mistake -- these are not just offshoots of insurance policies. Says Baker, they use different mortality tables and different assumptions to create the product.

"It can be sold by insurance agents, but we're seeing more financial professionals sell these products," said Thomes. The opportunity is there for agents, though. Thomes says sales of annuities by financial advisors and registered reps are at just 20 percent.

Then why don't more agents sell them? Baker says that it does depend on where agents are in their career, what their specialty area is and access to training in annuity products. "Where the rubber really hits the road is the fact that an income annuity doesn't necessarily fit the business model of the distribution firm."

Part of the problem is that annuities don't show up on the balance sheet more than once, which creates a dilemma for agencies wanting to offer them, but needing to meet their sales targets. Baker said that CANNEX is heading up an initiative that allows agents to do just that: "We're developing a methodology to put an income value against those assets so that when you look at the client's portfolio, not only can the client see those assets working for them, but the advisor can track those assets."

Agents on notice

For nearly any insurable moment, there is a product designed to mitigate the loss potential. Backed by a weak economy, consumers are holding out for that deal that helps them with more than one life situation. As the insurance industry responds, agents can find opportunities in emerging markets or those gone untapped. As Baker explained, "There's an informed, educated consumer out there right now who's looking for particular features."

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