

Actuarial, Claim & Underwriting

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*2006 Long Term Care International Forum
Las Vegas, Nevada*

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Introduction

- Common Goal → Profitable Risk Pool

.... charge the right price for the right people and (later) pay the right claims

Regulators' Recognition of Importance

- LTC Model Regulation (August 2000) Section 10, Paragraph B(2)(c)
 - Actuarial certification consisting of a statement ... “that the underwriting and claims adjudication processes have been reviewed and taken into consideration.”
 - Requires that Actuaries talk to Underwriting and Claim Department personnel
- Now adopted in 35+ states

Actuarial, Claim & Underwriting

Underwriting Perspective

Linda Jonides, FLMI, AALU

Chief Underwriter

Equitable Life & Casualty Insurance Company

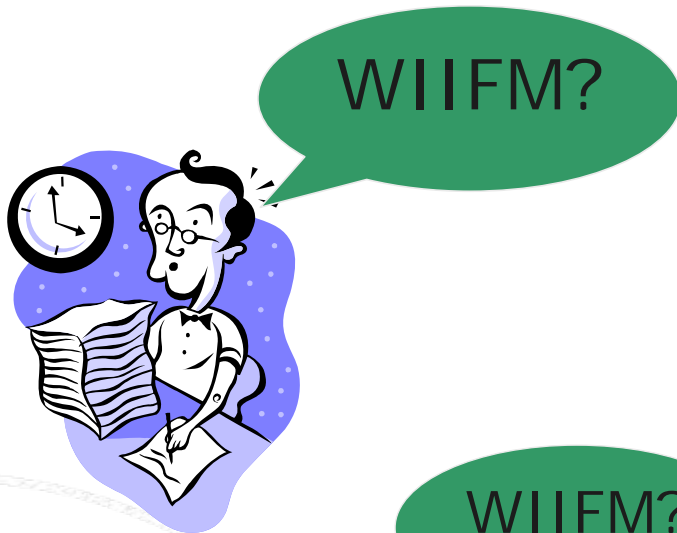
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Collaboration Among the Disciplines



Collaboration Among the Disciplines

- Understand roles and objectives within the corporate scope
 - Assure underwriting guidelines are in sync with actuarial risk assumptions
 - Understand claims paying criteria
 - Learn from experience data and trend



Collaboration Among the Disciplines

- Product Development
 - Type of risk assumptions used
 - Use appropriate underwriting guidelines based on assumptions
 - Anticipation of placement by risk class
 - Cost / benefit analysis of underwriting requirements

Collaboration Among the Disciplines

- Actuaries have a wealth of data Underwriting can use!
 - Claims Experience
 - Actual vs. Expected
 - Incidence and claim duration by diagnosis
 - Length of time from issue to claim
 - Short term claims
 - Age specific experience

Collaboration Among the Disciplines

- Learn about Claim Eligibility
 - Criteria that must be satisfied to qualify
 - Definition of Cognitive Impairment
 - Diagnosis of claim and resulting impairment

Collaboration Among the Disciplines

- Claims trends and data
 - By age, diagnosis, duration, benefit structure
- Contestable claims and rescissions
 - Underwriting training issues
 - Agent trends

Collaboration Among the Disciplines

- Actuarial, Underwriting & Claims working toward same goal
 - Accept risks based on actuarial assumptions
 - Pay claims based on contract language
 - Adjust pricing or underwriting based on actual claim experience
 - Share data and trend information



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Claims Perspective

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Senior Claim Officer

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Claim Insights

- Roles and responsibilities
 - Participate
 - Communicate
 - Execute
- Examples
- Blueprint for success
- Desired outcomes

Roles and Responsibilities

PARTICIPATE

- Product development team
- Contract drafting
- Response to Insurance Dept. Objections
- Pricing Assumptions
- Underwriting guideline changes
- Training programs

Roles and Responsibilities

COMMUNICATE

- How your claim model works
 - Benefit eligibility determination
 - Risk management practices
- Benefit design concerns
- Contract language issues
- Underwriting feedback

Roles and Responsibilities

EXECUTE

- Administer claim model consistently
- Manage risk
- Adjust processes to meet changing needs
- Identify & communicate emerging trends
- Ensure credibility of claim data
- Initiate ongoing dialogue

Situation Examples

- Benefit design
 - New features – impact on claim process/systems
 - Impact to risk management
 - Encourage early notice
- Policy Language
 - Clear definitions
 - Tighten policy defenses
- Coding
 - Cause of claim – participating vs. disabling
 - Date of loss

Blueprint for Success

- Senior management support
- Dismantle “walls”
- Develop a shared sense of purpose
- Be open to new ideas
- Share information & expertise
- Identify & assess risk issues
- Promote mutual respect
- Secure commitment

Desired Outcomes

- Premium stability
 - Benefits paid as expected in pricing
 - Claim costs meet assumptions
 - Change in premium less likely
- Accurate & consistent experience data
 - Pricing
 - Trend analysis

More Desired Outcomes

- Innovative and well-defined contracts
- Reduced risk

➔ Expected profitability & sales pattern

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Actuarial Perspective

Amy Pahl, FSA, MAAA

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Actuary's Role

- Perform 3 basic tasks
 - Pricing
 - Reserving
 - Experience Analysis
- What interaction is needed with Underwriting and Claims for each?

Actuary's Role - Pricing

- Questions for the Underwriter
 - What tools in use and when?
 - Decision-making process
 - Expected distribution by rate class
- Why: set claim cost and underwriting expense assumption

Underwriting Style – Protocols by Type

	Tight	Moderate	Loose
Application	Health history, lifestyle, meds, prior care	Same as “tight”	Same as “tight”
Telephone Interview	All not receiving face to face	Same as “tight”	All, may incl. cognitive screen
APS Use	All cases	All Ages 75+ , else UW’er discretion	Rarely
Face to Face Interview	Ages 65+ with cognitive screen	Ages 72+ with cognitive screen	Rarely

Underwriting Style effect on Duration Factors

Example: Issue Age 70

Dur	Tight	Moderate	Loose
1	.40	.64	.79
2	.50	.82	1.20
3	.60	.93	1.30
4	.70	1.04	1.39
5	.76	1.09	1.44
6	.82	1.13	1.44
7	.88	1.15	1.44
8	.93	1.15	1.44
15+	1.00	1.15	1.44

Actuary's Role - Pricing

- Questions for Claims
 - Process for determining claim eligibility
 - How is care plan determined?
- Why: set claim cost and claim expense assumption

Actuary's Role - Reserving

- Questions for the Underwriter
 - None
- Questions for Claims
 - Data itself
 - How to interpret
 - Diagnosis coding
 - Date & status definitions
 - Multiple episodes of care
 - Others
- Why: set claim reserve assumptions

Actuary's Role – Experience Analysis

- Questions for the Underwriter
 - Issued, denied, not-taken rates
 - Distribution of business approved
 - Exceptions?
 - Changes since product priced
- Why: track actual to expected, adjust assumptions

Actuary's Role – Experience Analysis

- Questions for Claims
 - Similar to those for reserving
 - Changes in process over time
- Why: track actual to expected, adjust assumptions

Survey Findings – Meetings

- 84% (21 of 25 in market) met in 2005
 - Only 33% (7 of 21) of those regularly
 - 19% (4 of 21) only 1, 2 or 3 times
 - 24% (5 of 21) did not respond to “how often” question
- 88% (15 of 17) of those that met 1-on-1 or as part of committee found the meeting informative and helpful or essential

Survey Findings – Topics discussed

- 17 commented
 - 16 related to pricing
 - 5 related to experience or product performance
 - 2 related to reserves

Survey Results – Improving Communication

- 18 commented
- All comments suggest recognize need to meet
 - Desire to know more about other functions (i.e. “Like to know how the block is performing)
 - Contact described as “invaluable”, “essential”
 - Need to meet more often

Questions and Discussion