



**SOA
LTCI Conference
January 2003**



SOA Intercompany LTCI Conference

Las Vegas

Session 14

January 27, 2003

HOW DOES CLAIMS DATA IMPACT UNDERWRITING?

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Why Change Underwriting?

- Changes in medical care?
- Poor morbidity results
 - early duration vs. longer term
 - specific areas vs. “across the board”
- Desire to improve product price/features
- Desire to attract more/different business
- Change in marketplace
- “Self-inflicted wounds”

Types of Underwriting Changes

- Underwriting tools
 - Applications, PHI or F2F questions
 - Evidence types (APS, PHI, tests, F2F)
- Routine age/benefit driven evidence thresholds
- Actual medical conditions standards

Steps Involved in Making Underwriting Changes

- Review of medical literature
- Analysis of macro claims trends
- Collection of targeted claims information (both anecdotal/judgment observations, Statistical Data and Claims Review)
- Draft new Underwriting Manual Sections, Evidence Rules or Tests
- Analysis of Marketplace, Cost/Benefit and Service impacts
- Finalize changes
- Follow-up Results Review at appropriate intervals.

Role of Claims
Data varies depending
on what is the
Driver of Change

Examples:

- **High Early Duration/Anti-selective Claims**
(manifested in basic claims or Actuarial reports)
- **Emergence of New Conditions** (basic reports or antidotal observations of claims staff)
- **Competitive pressure on a single medical condition**

Example #1

High Early Duration / Anti-Selective Claims

- Manifested in Actual / Expected Actuarial Studies (late 90's issues)
- Requires heavy use of claims data
- First need to identify is it “across the board” or targeted to specific medical conditions, ages, etc.
- Required extensive claims and underwriting File Review
- Found higher than expected Cognitive Claims and true anti-selective claims

Example #1 cont...

File Review Methodology

- Reviewed all duration 1 & 2 claims plus selected 3-5 year duration claims
- Created large spreadsheet collecting data on dozens of topics. Avoided looking at only predetermined probable causes
- Special emphasis on anti-selective “Red Flags” and potential underwriting changes

Example #1 cont...

Portion of Spreadsheet

Underwriting Improvement			
Application PHI, F2F Questions	Evidence (Type, age required etc.)	Training or Underwriter Compliance	None

Example #1 cont...

Findings:

- 1) Outdated evidence rules & inadequate application questions created anti-selective targets
- 2) Underwriters needed training in anti-selective “Red Flags”
- 3) Underwriting Manual standards for medical conditions were okay
- 4) Claims practices and product features were not problematic

Example #1 cont...

Changes:

- 1) Evidence rules changed
 - Lowered age for F2F exams
 - Increased use of Telephone Interviews
- 2) Improved application questions
 - Added “symptoms or consultation” questions
 - Designed age specific Telephone Interviews
- 3) Trained Underwriters on “Red Flags” and appropriate actions

Result: Early duration appear to be coming inline with Product Assumptions

Example # 2

Emergence of New Conditions

ALS, Huntington Chorea and other Neurological/
Muscular / Autoimmune Disorder Claims that were
rarely seen in the 80's and 90's began appearing.

What should we do?

Example # 2 cont...

Traditional Statistical Claims/Actuarial Studies on actual/expected results, claim frequency, duration, paid data, etc., were of limited use because:

- Claims were too new to compare current to historical results
- Many claims were still open when we became aware of the emerging situation; therefore, data was not reliable or complete
- Claims were coming from a new marketplace

Example # 2 cont...

Anecdotal Observation and Judgment of Claims and Underwriting Staff determined:

- 1) Trend would continue as we continued to write younger average age and more Worksite
- 2) Applications were often made after symptoms were manifesting but before final diagnosis was made
- 3) Actual Underwriting Manual standards were adequate. Conditions are uninsurable at any price.

Example #2 cont...

What did we do?

We used claims examiner observations to design:

- 1) New Application and PHI questions
- 2) Underwriter Training for young age “Red Flags”.
- 3) Changed Worksite Underwriting Practices
(approval process, MGI Criteria, etc..)

Example #3

Competitive Pressure a Single Medical Condition

Steps:

- 1) Situation Analysis - Is U/W competitive?
- 2) Option Analysis
 - What are overall A/E results
 - Is Standard Acceptance for all benefits warranted
 - Are modified offers appropriate

Example # 3

Are Modified Offers Appropriate?

- 1) Likelihood of claims
 - Estimated % who will claim
 - Likely timing of claim
- 2) Review claims data on:
 - Duration of claims (days)
 - Average dollars paid
 - Pattern (progression) of Benefit Payment

Example # 3

Opinions/Conclusions

- 1) If condition has short duration (<6 mos), low dollar claims and/or low probability of claim?
Long EP (90 days) and extra premium appropriate
Example - Many Cancers
- 2) If condition has long duration (> 3 years) high dollar claims and high probability of quick claim?
3 year BP with 90 EP and Extra Premium (50% extra) are not appropriate. Example: Recent Stroke with A.F., CAD and mild HTN

RECAP

Claims information is very important in properly designing underwriting changes/program; however, the type of claims information and the weight given to it vary according to the reason driving the need for change.



Underwriter's Claim Data

Wish List

- More aggressive questioning of Care Provider Coding
- In addition to Admitting and Primary Coding - add Underlying Cause Codes
- Find ways to incorporate Co-Morbidity and Complications data
- “Early Warning” on new Trends/Suspicious